Legislative Assembly
of
British Columbia

SELECT STANDING COMMITTEE ON PUBLIC ACCOUNTS

FIRST REPORT

First Session

Thirty-fifth Parliament

British Columbia Legislative Assembly

Mr. Fred Gingell, MLA
Chairperson

Ms. Joy MacPhail, MLA
Deputy Chairperson

93-01282/

TABLE OF CONTENTS

	Page
Letter of Transmittal	3
Composition of the Committee	4
Terms of Reference and Procedure	5
Observations and Recommendations	8
Status of Business	11
Documents Tabled	13
Minutes of Proceedings	14
Appendix One - Public Documents Committee Recommendations	25
Appendix Two - Canadian Council of Public Accounts Committees Constitution	36
Appendix Three - Transcript of Proceedings	37

June 25, 1992

To The Honourable,
The Legislative Assembly of
The Province of British Columbia,
Victoria, British Columbia

Honourable Members:

We have the honour to submit the *First Report* of the Select Standing Committee on Public Accounts for the First Session of the Thirty-fifth Parliament.

This *First Report* covers the work of the Committee during the period March 31, 1992 through June 24, 1992.

Respectfully submitted on behalf of the Committee.

Mr. Fred Gingell, MLA
Chairperson
(Delta South)

Ms. Joy MacPhail, MLA
Deputy Chairperson
(Vancouver-Hastings)

Composition of the Committee

Members

Mr. Fred Gingell, MLA **Chairperson**	Delta South
Ms. Joy MacPhail, MLA **Deputy Chairperson**	Vancouver-Hastings
Mr. Harry Lali, MLA	Yale-Lillooet
Mr. Norm Lortie, MLA	Delta North
Mr. Barry Jones, MLA	Burnaby North
Mr. Dale Lovick, MLA	Nanaimo
Mr. Fred Randall, MLA	Burnaby-Edmonds
Mr. David Schreck, MLA	North Vancouver-Lonsdale
Mr. Gary Farrell-Collins, MLA	Fort Langley-Aldergrove
Mr. Ken Jones, MLA	Surrey-Cloverdale
Mr. Lyall Hanson, MLA	Okanagan-Vernon

Clerk to the Committee

Ms. Joan Molsberry
Committee Clerk

Advisors

Mr. George Morfitt, F.C.A.
Auditor General

Mr. Alan Barnard
Acting Comptroller General

Terms of Reference and Procedure

This Committee was established on March 17, 1992 for the First Session of the Thirty-fifth Parliament with the following terms of reference:

> *" ... to examine and inquire into all such matters and things as shall be referred to them by this House, and to report from time to time their observations and opinions thereon, with the power to send for persons, papers and records ..."*

The list of members comprising the Committee was adopted by the House on Wednesday, March 25, 1992 with the *Public Accounts for the fiscal year ended March 31, 1990*, being referred, on motion of the Minister of Finance, to the Committee. On Tuesday, March 24, 1992 the Minister of Finance tabled in the Legislature the *Auditor General's Special Report to the Legislative Assembly of British Columbia on the 1990-91 Public Accounts.* Unless the latter document is referred to the Committee by the House, it is does not form part of the terms of reference.

Matters most commonly referred to this Committee while the House is in Session are the *Public Accounts* of the Province of British Columbia, the *Auditor General's Annual Report*, and *applications for the retention and disposal of government documents.*

Section 10(4) of the *Auditor General Act* states that:

> *"On being laid before the Legislative Assembly, the annual report of the Auditor General shall be referred to the Public Accounts Committee of the Legislative Assembly."*

The House has interpreted this subsection to mean that upon being tabled in the House in accordance with Section 8(3)(c) of the Financial Administration Act, the public accounts:

> *"be laid by the Minister of Finance before the Legislative Assembly by December 31 next after the end of the fiscal year, if the Legislative Assembly is then sitting, and otherwise within 15 sitting days after the opening of its next sitting."*

The public accounts are referred, on motion, to this Committee by the Minister of Finance. The practice in the House is for the Committee to receive the applications for the retention and disposal of government documents directly from the Public Documents Committee, "which consists of the Provincial Archivist, the Comptroller General and 3 other persons to be named by the Lieutenant Governor in Council" (*Document Disposal Act,* RSBC 1979, C.95, S.3(1)).

Strictly speaking, this Committee is afforded the opportunity of exercising it's authority only within the confines of its terms of reference and instructions given to it by the House, which forms the basis of the work of this Committee. Without a special instruction from the House the Select Standing Committee on Public Accounts cannot direct the Office of the Auditor General to undertake any special inquiries since these specific matters have not been referred to the Committee. However, the Committee is able to ask the Auditor General to assist with research into any particular area being examined by the Committee. Research would not include the act of auditing unless that provision is contained within the Committee's terms of reference.

If research is interpreted by the Committee to mean "special assignment" the Committee might be precluded from requesting the Auditor General to respond according to the *Auditor General Act:*

"13. The Auditor General may undertake special assignments at the request of the Lieutenant Governor in Council, but he is under no obligation to carry out any requested assignment if, in his opinion, it would interfere with his primary responsibilities."

Section 69 of the *Constitution Act* provides a legal framework around which the Public Accounts and other committees operate:

69. (1) A select standing or special committee of the Legislative Assembly may, if authorized by resolution of the Legislative Assembly, sit

(a) during a period in which the Legislative Assembly is adjourned; or

(b) during the recess after prorogation until the next following session, and shall report to the Legislative Assembly on the matters referred to it following the adjournment, or at the next following session, as the case may be.

(2) A select standing or special committee of the Legislative Assembly authorized under subsection (1) may sit at times and places and examine witnesses and documents and hear representations from persons and organizations

(a) as the Legislative Assembly, by resolution, may direct; or

(b) as the committee may decide, where there is no direction, and for the purpose of this section the committee

(c) may compel the attendance of witnesses and the production of documents; and

(d) has all the powers and privileges of the Legislative Assembly under the *Legislative Assembly Privilege Act*, and a warrant or subpoena issued by the chairman of the committee has the same force and effect as if issued by the Speaker under section 3 of the Act.

Sir Erskine May's *Parliamentary Practice* states that:

"... a select committee, like a Committee of the Whole House, possesses no authority except that which it derives from the House by which it is appointed. When a select committee is appointed to consider or inquire into a matter, the scope of its deliberations or inquiries is defined by the order by which the Committee is appointed ... and the deliberations or inquiries of the committee must be confined within the limits of the order of reference."

Additional procedural guidance is provided to the Committee through Standing Order 71 which states, in part:

" ... the Standing Orders of the House shall be observed in the Select Standing and Special Committees to the same extent as the same may be applicable to the Committee of the Whole House ... procedural matters arising in Committee shall be decided in Committee ... a majority of the members of a Committee shall be a quorum, unless the House has otherwise ordered." (see: *Parliamentary Practice in British Columbia* by E.G. MacMinn, Q.C., second edition, 1987, page 121)

The role of the Committee is described as not seeking to concern itself with policy, rather, its interest is in whether policy is carried out efficiently, effectively and economically. Its main functions are to see that public moneys are applied for the purposes prescribed by Parliament arising out of matters referred to it by the Legislative Assembly. (see also: *May*, 20th edition, page 728).

Business Conducted

At the first meeting of the Committee, held on March 31, 1992, Mr. Fred Gingell, MLA was elected Chairperson of the Committee. Ms. Joy MacPhail, MLA was elected Deputy Chairperson. During the period that this Report covers, the Chairperson, Deputy Chairperson, the Clerk of Committees, the Committee Clerk, the Auditor General and the Acting Comptroller General met informally and frequently in an attempt to establish a Sessional Agenda. The Sessional Agenda incorporated issues of concern to the Committee arising out of the documents referred to it by the House.

To date, the Committee has conducted thirteen meetings focussing upon the issues enumerated in the Recommendations contained in this Report.

The Committee, comprised of eight newly elected Members of the Legislative Assembly for this Parliament and three Members elected more than once to this House, tackled the difficult task of ensuring that the public's money was expended in the manner prescribed by the Legislative Assembly with the appropriate financial mechanisms in place to elicit the Committee's confidence.

The Committee expresses their appreciation to their Committee Clerk for her administrative support and procedural advice this Session and the advice it received from the Auditor General and the Acting Comptroller General.

Observations and Recommendations

Recommendation #1

Your Committee recommends that the retention and disposal of the operational records of the Office of the Comptroller General, Ministry of Finance and Corporate Relations, be in accordance with the records schedules, standards, and guidelines described in the Office of the Comptroller General *Operational Records Classification System.*

Recommendation #2

Your Committee recommends that the retention and disposal of the records described in the on-time and ongoing records retention and disposal authorities on the list included in Appendix One be in accordance with the disposal dates, retention periods, and final dispositions indicated on those authorities.

Recommendation #3

Your Committee recommends that the management of the retention and disposal of the operational records of the Energy Resources Division of the Ministry of Energy, Mines and Petroleum Resources be in accordance with the records schedules, standards and guidelines described in the *Operational Records Classification System* **of the Energy Resources Division as amended.**

Recommendation #4

Your Committee recommends that the management of the retention and disposal of the operational records of the Driver Services Division of the former Ministry of the Solicitor General be in accordance with the records schedules, standards and guidelines described in the *Operational Records Classification System* **of the Driver Services Division as amended.**

The process of reviewing the applications for the retention and disposal of Government documents pursuant to the *Document Disposal Act* is cumbersome, inefficient and ineffective. Alternatives to your Committee receiving reports from the Public Documents Committee should be examined by the Government, particularly in light of the fact that your Committee is the only one of its kind in Canada. This should be done without losing sight of the accountability component originally contemplated in the statute.

Recommendation #5

Your Committee recommends that a body other than the Select Standing Committee on Public Accounts review the applications for the retention and disposal of government documents recommended by the Public Documents Committee.

The Auditor General of British Columbia has recommended that the Government record its pension obligations in accordance with the guidance provided to the public sector by the Canadian Institute of Chartered Accountants in its Public Sector Accounting Statement (PSAAC 5). The Government's senior accounting officials agree, in principle, with this recommendation.

One of the February 1992 British Columbia Financial Review reports issued by the Peat Marwick Thorne firm of chartered accountants, on the issue of accounting policies, also recommended that the recommendations of PSAAC 5 be implemented in the financial statements of the Province.

Both the Acting Comptroller General and the Auditor General agree that the Government's direct liability for pension obligations is represented by the unfunded liability, calculated on the accrued benefit basis, pursuant to the *Pension (Public Service) Act*. At the date of the latest actuarial valuation, March 31, 1990, the amount of the unfunded liability was $441 million. This was the issue, and the amount, that led to the Auditor General's reservation of his opinion as to the fairness of the Government's financial statements for the 1990/91 fiscal year.

Recommendation #6

Your Committee recommends the recording of the Government's pension obligations in its accounts and financial statements, and recommends that the Government record its pension obligations with respect to the Pension (Public Service) Act in the preparation of the 1991/92 financial statements of the Government.

As a result of the *Public Service Act*, reporting all employee's salaries no longer fulfils its original purpose of disclosing patronage.

The level of detail of current reporting is costly and time consuming to produce. Increasing the current level of reporting from $35,000 per annum to $50,000 per annum for employees, other than Order-in-Council or other appointees, would reduce the cost of producing the Public Accounts. It would also reduce the cost of *Financial Information Act* reporting for reporting organizations if the limits were raised for these organizations as well.

Recommendation #7

Your Committee recommends the detailed reporting of salary and travel for employees, other than Order-in-Council or other appointees, only where the employee's salary is $50,000.00 per annum or higher.

The current method of reporting salaries, indemnities and allowances of Members of the Legislative Assembly in different areas of the Public Accounts makes it difficult to readily identify the total amounts paid to a particular Member.

The Office of the Comptroller General has proposed consolidating the reporting of salaries, indemnities and allowances in one schedule in the Public Accounts.

Recommendation #8

Your Committee recommends that the schedule of indemnities and allowances paid to Members of the Legislative Assembly contain, at a minimum, the following information: Sessional Indemnity, Capital City Allowance, and Ministerial travelling expenses, in the format illustrated in Appendix Three of this Report.

Recommendation #9

Your Committee recommends that the reporting of payments to suppliers and grant recipients in the Public Accounts remain the same.

The Auditor General has commented on the different treatments given by the Province and the British Columbia Hydro and Power Authority of a long-term advance the Province made to B.C. Hydro in the 1988/89 fiscal year. The $235 million in "preferred funds" was provided to B.C. Hydro by the Province through its Fiscal Agency Loan Program, a program under which the Province borrows money and then lends it to a government body. The Government includes the advance in its financial statements as a fiscal agency loan receivable, B.C. Hydro continues to show the amount in its financial statements a "Preferred

Funding", separate from long-term debt and other liabilities. As B.C. Hydro believes the preferred funding to be in the nature of equity rather than debt, it has not established the related sinking fund as required by section 42(15) of the *Hydro and Power Authority Act*.

Recommendation #10

Your Committee recommends that British Columbia Hydro and Power Authority and the Comptroller General consult on ways to resolve the problems inherent in the Authority's preferred funding structure.

The *Financial Information Act* requires disclosure of financial information to the public by school districts, hospitals, municipalities, colleges, universities and many, but not all, of the organizations and enterprises which form part of the Government's summary financial reporting entity. The Auditor General has suggested that, because the composition of the Government's summary financial reporting entity trends to change from year to year, mainly through the addition of organizations and enterprises, it may be efficient and effective to have a change made to the *Financial Information Act* to accommodate up-to-date inclusion of all government organizations and enterprises, rather than periodically updating schedules 1 and 2 to the Act or changing each organization's enabling legislation.

Recommendation #11

Your Committee recommends that an amendment be made to the Financial Information Act respecting the definition of "Corporation" as follows:

> **"Corporation also means an organization or enterprise that is included in the reporting entity for purposes of the Government's summary financial statements".**

Recommendation #12

Your Committee recommends that the Government increase it's note disclosure of the Fiscal Agency Loan Program regarding loans repayable through future appropriations until a review of physical asset accounting can be completed and the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants has issued a statement on accounting for loans receivable.

Status of Business

First Session, Thirty-fifth Parliament

The following issues have been identified by the Committee and are not listed in order of priority for its review. Your Committee has examined as much of this list as time permits.

ISSUE	REFERENCE
From the Report to the Legislative Assembly of British Columbia on the 1990-91 Public Accounts, published January 1992:	
1. Unfunded pension liability: reservation of audit opinion **- Hearing: April 22, April 29, May 13, May 20**	p.11
2. Statutory pension plans **- Hearing: April 22, April 29, May 13, May 20**	p.31
3. Amounts recoverable through future appropriations **- Hearing: June 17**	p.12
4. Budget stabilization fund	p.16
5. Unrecorded lottery grant payments **- Hearing: May 20**	p.30
6. Defining the Government reporting entity **- Hearing: June 17**	p.18
7. British Columbia Hydro and Power Authority preferred funding **- Hearing: May 20, May 27**	p.29
8. Accounting for Government transfers **- Hearing: May 20**	p.20
9. General standards of financial statement presentation for governments **- Hearing: June 10**	p.22
10. Issues reported for information purposes only	p.14,17 p.18

From the 1991 Annual Report of the Auditor General, published March 1991:

11. Introduction to value-for-money audits	p.39
12. Ministry of Forests	p.41,47 p.57
13. Ministry of Transportation and Highways	p.82,84 p.94,107 p.113
14. Compliance with the Financial Information Act, regulation and directive **- Hearing: June 3, June 10**	p.144
15. Compliance with Part IV of the Financial Administration Act and related regulations	p.151
16. Expenditure review: Board of Internal Economy	p.156
17. External settlement/safekeeping services for long-term bond portfolios	p.158
18. Child day care subsidy program	p.161
19. Industrial incentive fund **- Hearing: May 27**	p.165
20. Performance and security bonding	p.179
21. Accountability of Crown Corporations to the Legislative Assembly **- Hearing: May 6**	p.187

From issues from Part I of the Auditor General's 1991 Annual Report:

22. Public bodies	p.26
23. Statutory pension plans (*see also #2*)	p.29

From the Public Documents Committees:

24. Applications for the Retention and Disposal of Government Documents #1
- Hearing: April 15, May 13

Documents Tabled

Document Disposal Act **PAC 1/92**
Employee salary and expense payments reporting **PAC 2/92 - Hearing: May 13, May 20**
Severance reporting **PAC 3/92**
M.L.A. salaries, indemnities, allowances, wages and travelling expenses reporting **PAC 4/92 - Hearing: May 13, May 20**
Grants and contribution payments reporting **PAC 5/92 - Hearing: May 20**
Statutes containing the "notwithstanding the Financial Administration Act" clauses **PAC 6/92**
Retention and disposal applications **PAC 7/92**
Public Accounts 1989/90 **PAC 8/92**
Public Accounts 1990/91 **PAC 9/92**
Auditor General's Report on the 1990/91 Public Accounts **PAC 10/92**
Issues for the Public Accounts Committee arising out of the Auditor General's 1991 Annual Report **PAC 11/92**
Issues for the Public Accounts Committee arising out of the 1990-91 Public Accounts **PAC 12/92**
Annual Report of the Auditor General, 1991 **PAC 13/92**
Crown Corporation accountability **PAC 14/92**
Pension fund performance **PAC 15/92**
Issues regarding pension plans **PAC 16/92**
Funding of the Statutory Public Sector Pension Plans **PAC 17/92**
Draft recommendation #1: recovery of the Government's pension obligations **PAC 18/92**
Correspondence re Farrell-Collins and ICBC **PAC 19/92**
Government Severance Policy **PAC 20/92**
Compliance with the Financial Information Act **PAC 21/92**
Accessing information about public sector organizations **PAC 22/92**
Government organizations and enterprises not subject to the Financial Information Act **PAC 23/92**
Canadian Council of Public Accounts Committees Annual Meeting: Agenda **PAC 24/92**
Fiscal agency loans - charts of explanation **PAC 25/92**
Criteria for inclusion in the Financial Information Act **PAC 26/92**
B.C. Hydro long term gas supply contracts related to Burrard Thermal Plant prior to the sale of Lower Mainland Gas Division **PAC 27/92**

Minutes of Proceedings

Tuesday, March 31, 1992
Birch Committee Room (339)
Parliament Buildings
Victoria
8:30 a.m.

MINUTES

Present: Mr. Fred Gingell, MLA (Convenor); Ms. Joy MacPhail, MLA; Mr. Harry Lali, MLA; Mr. Norm Lortie, MLA; Mr. Barry Jones, MLA; Mr. Dale Lovick, MLA; Mr. Fred Randall, MLA; Mr. David Schreck, MLA; Mr. Ken Jones, MLA; Mr. Lyall Hanson, MLA

Officials

Office of the Auditor General

Mr. Bob Hayward, Deputy Auditor General
Mr. Gordon Dawson, Executive Principal

Office of the Comptroller General

Mr. Alan Barnard, Acting Comptroller General

1. **Resolved**, That Mr. Fred Gingell, MLA be elected as Chairperson to the Committee. (K. Jones, MLA)

2. **Resolved**, That Ms. Joy MacPhail, MLA be elected as Deputy Chairperson to the Committee. (B. Jones, MLA)

3. **Resolved**, That the Committee attempt to meet Wednesday mornings throughout the First Session of the Thirty-fifth Parliament. (J. MacPhail, MLA)

4. The Clerk of Committees suggested on orientation seminar, participants to include Mr. John Kelly, Canadian Institute of Chartered Accounts, for Wednesday, April 8, 1992.

5. The Clerk of Committees briefed the Committee on administrative and procedural concepts related to its terms of reference.

6. The Committee adjourned at 9:05 a.m. to Wednesday, April 8, 1992 at 8:45 a.m. in the Birch Committee Room (339). (L. Hanson, MLA)

Wednesday, April 8, 1992
Birch Committee Room (339)
Parliament Buildings
Victoria
8:15 a.m.

MINUTES

Present: Mr. Fred Gingell, MLA (Chairperson); Ms. Joy MacPhail, MLA, (Deputy Chairperson); Mr. Norm Lortie, MLA; Mr. Barry Jones, MLA; Mr. Fred Randall, MLA; Mr. David Schreck, MLA; Mr. Gary Farrell-Collins, MLA; Mr. Ken Jones, MLA, Mr. Lyall Hanson, MLA.

Officials

Office of the Auditor General

Mr. George Morfitt, Auditor General
Mr. Bob Hayward, Deputy Auditor General

Office of the Comptroller General

Mr. Alan Barnard, Acting Comptroller General

1. The Clerk of Committees briefed the Committee on its Terms of Reference and Procedure.

2. The Acting Comptroller General briefed the Committee on the role and functions of his Office.

3. The Auditor General briefed the Committee on the role and functions of his Office.

4. The Committee adjourned at 10:20 a.m. until Wednesday, April 15, 1992 in the Douglas Fir Committee Room (226), Parliament Buildings. (J. MacPhail, MLA)

Wednesday, April 15, 1992
Douglas Fir Committee Room (226)
Parliament Buildings
Victoria
9:00 a.m.

MINUTES

Present: Mr. Fred Gingell, MLA (Chairperson); Ms. Joy MacPhail, MLA, (Deputy Chairperson); Mr. Norm Lortie, MLA; Mr. Barry Jones, MLA; Mr. Fred Randall, MLA; Mr. David Schreck, MLA; Mr. Gary Farrell-Collins, MLA; Mr. Ken Jones, MLA, Mr. Lyall Hanson, MLA.

Officials

Office of the Auditor General

Mr. George Morfitt, Auditor General
Mr. Bob Hayward, Deputy Auditor General

Office of the Comptroller General

Mr. Alan Barnard, Acting Comptroller General
Mr. Vic Skaarup, Accounting and Reporting

1. The Committee was briefed by the Public Documents Committee related to the application of the retention and disposal of Government documents in British Columbia.

   Witness

   Mr. John Bovey, Provincial Archivist and Chairperson, Public Documents Committee

2. The Committee discussed its terms of reference and matters referred to it by the House.

3. The Committee agreed to establish a sessional agenda that would incorporate:

   1. the examination of selected Crown Corporations;
   2. issues raised in the Auditor General's reports before the Committee based on a priority of significance established by the Committee;
   3. issues raised in the Public Accounts for the Province of British Columbia based on a priority of significance established by the Committee;
   4. the examination of the retention and disposal of Government documents as recommended by the Public Documents Committee; and
   5. other matters that might be brought to the Committee's attention during the First Session

4. The Committee adjourned at 10:15 a.m. until Wednesday, April 22, 1992 from 8:15 a.m. to 10:15 a.m. in the Douglas Fir Committee Room (226), Parliament Buildings. (J. MacPhail, MLA)

Wednesday, April 22, 1992
Douglas Fir Committee Room (226)
Parliament Buildings
Victoria
8:45 a.m.

MINUTES

Present: Mr. Fred Gingell, MLA (Chairperson); Mr. Norm Lortie, MLA; Mr. Barry Jones, MLA; Mr. Fred Randall, MLA; Mr. David Schreck, MLA; Mr. Gary Farrell-Collins, MLA; Mr. Ken Jones, MLA, Mr. Lyall Hanson, MLA.

Officials

Office of the Auditor General

Mr. George Morfitt, Auditor General
Mr. Bob Hayward, Deputy Auditor General
Mr. Gordon Dawson, Executive Principal

Office of the Comptroller General

Mr. Alan Barnard, Acting Comptroller General
Mr. Vic Skaarup, Accounting and Reporting

1. **Public Hearing:** Government Unfunded Pension Liability.

   Witnesses

   Mr. John Cook, Superannuation Commission
   Mr. Doug Pearce, Ministry of Finance

2. Government Unfunded Pension Liability: **Hearing Adjourned.**

4. The Committee adjourned at 10:15 a.m. until Wednesday, April 29, 1992 from 8:45 a.m. to 10:15 a.m. in the Douglas Fir Committee Room (226), Parliament Buildings. (F. Randall, MLA)

Wednesday, April 29, 1992
Douglas Fir Committee Room (226)
Parliament Buildings
Victoria
8:45 a.m.

MINUTES

Present: Mr. Fred Gingell, MLA (Chairperson); Ms. Joy MacPhail, MLA (Deputy Chairperson); Mr. Harry Lali, MLA; Mr. Norm Lortie, MLA; Mr. Barry Jones, MLA; Mr. Fred Randall, MLA; Mr. David Schreck, MLA; Mr. Ken Jones, MLA, Mr. Lyall Hanson, MLA.

Officials

Office of the Auditor General

Mr. George Morfitt, Auditor General
Mr. Gordon Dawson, Executive Principal

Office of the Comptroller General

Mr. Alan Barnard, Acting Comptroller General
Mr. Vic Skaarup, Accounting and Reporting

1. **Public Hearing:** Government Unfunded Pension Liability (*continued*).

   Witnesses

   Mr. John Cook, Superannuation Commission

2. Government Unfunded Pension Liability: **Hearing Concluded**.

4. The Committee adjourned at 10:15 a.m. until Wednesday, May 6, 1992 from 8:45 a.m. to 10:15 a.m. in the Douglas Fir Committee Room (226), Parliament Buildings. (J. MacPhail, MLA)

Wednesday, May 6, 1992
Douglas Fir Committee Room (226)
Parliament Buildings
Victoria
8:45 a.m.

MINUTES

Present: Mr. Fred Gingell, MLA (Chairperson); Ms. Joy MacPhail, MLA (Deputy Chairperson); Mr. Barry Jones, MLA; Mr. David Schreck, MLA; Mr. Gary Farrell-Collins, MLA; Mr. Ken Jones, MLA

Officials

Office of the Auditor General

Mr. George Morfitt, Auditor General
Mr. Gordon Dawson, Executive Principal

Office of the Comptroller General

Mr. Alan Barnard, Acting Comptroller General

1. **Public Hearing:** Accountability of Crown Corporations to the Legislative Assembly of British Columbia.

2. Accountability of Crown Corporations to the Legislative Assembly of British Columbia: **Hearing Concluded**.

3. The Committee adjourned at 10:15 a.m. until Wednesday, May 13, 1992 from 8:45 a.m. to 10:15 a.m. in the Douglas Fir Committee Room (226), Parliament Buildings. (D. Schreck, MLA)

Wednesday, May 13, 1992
Douglas Fir Committee Room (226)
Parliament Buildings
Victoria
8:45 a.m.

MINUTES

Present: Mr. Fred Gingell, MLA (Chairperson); Ms. Joy MacPhail, MLA (Deputy Chairperson); Mr. Harry Lali, MLA; Mr. Norm Lortie, MLA; Mr. Barry Jones, MLA; Mr. Fred Randall, MLA; Mr. David Schreck, MLA; Mr. Gary Farrell-Collins, MLA; Mr. Ken Jones, MLA, Mr. Lyall Hanson, MLA.

Officials

Office of the Auditor General

Mr. George Morfitt, Auditor General
Mr. Gordon Dawson, Executive Principal

Office of the Comptroller General

Mr. Alan Barnard, Acting Comptroller General
Mr. Vic Skaarup, Accounting and Reporting

1. **Public Hearing**: Retention and Disposal Applications.

   Witness:

   Mr. John Bovey, Chairperson
   Public Documents Committee

2. **Resolved**, That the management of the retention and disposal of the operational records of the Office of the Comptroller General, Ministry of Finance and Corporate Relations, be in accordance with the records schedules, standards, and guidelines described in the Office of the Comptroller General *Operational Records Classifications System*. (K. Jones, MLA)

3. **Resolved**, That the retention and disposal of the records described in the one-time and ongoing records retention and disposal authorities on the list attached be in accordance with the disposal dates, retention periods, and final dispositions indicated on those authorities. (B. Jones, MLA)

4. **Resolved**, That the management of the retention and disposal of the operational records of the Energy Resources Division of the Ministry of Energy, Mines and Petroleum Resources be in accordance with the records schedules, standards, and guidelines described in the *Operational Records Classification System* of the Energy Resources Division as amended. (B. Jones, MLA)

5. **Resolved**, That the management of the retention and disposal of the operational records of the Driver Services Division of the former Ministry of Solicitor General be in accordance with the records schedules, standards, and guidelines described in the *Operational Records Classification System* of the Driver Services Division as amended. (N. Lortie, MLA)

6. Retention and Disposal Applications: **Hearing Concluded.**

7. The Committee considered a draft recommendation relating to the recording of Government pension obligations in its accounts and financial statements.

8. It was moved by Mr. K. Jones, MLA that:

   Your Committee supports the recording of the Governments pension obligations in its accounts and financial statements in the manner recommended for governments by the Canadian Institute of Chartered Accounts in its public sector accounting statement #5: and recommends that the Government implement this manner of recording in the preparation of the 1991/92 financial statements of the Government.

   A debate arising, it was on motion of Mr. B. Jones, MLA, adjourned.

9. **Resolved**, That the debate be resumed at the next meeting. (K. Jones, MLA)

10. The Committee considered a document prepared by the Acting Comptroller General entitled Employee Salary and Expense Payments Reporting. **(PAC 2/92)**

11. **A debate arising on PAC 2/92 it was on motion of Mr. K. Jones, MLA, adjourned.**

12. The Committee considered a document prepared by the Acting Comptroller General entitled MLA Salaries, indemnities, allowances, wages and travelling expenses reporting. **(PAC 4/92)**

13. **A debate arising on PAC 4/92 it was on motion of Mr. D. Schreck, MLA, adjourned.**

14. A draft **First Report** dated May 14, 1992 was circulated to Members of the Committee.

15. The Committee adjourned at 10:15 a.m. to the call of the Chair. (B. Jones, MLA)

Wednesday, May 20, 1992
Douglas Fir Committee Room (226)
Parliament Buildings
Victoria
8:45 a.m.

MINUTES

Present: Mr. Fred Gingell, MLA (Chairperson); Ms. Joy MacPhail, MLA (Deputy Chairperson); Mr. Harry Lali, MLA; Mr. Norm Lortie, MLA; Mr. Barry Jones, MLA; Mr. Fred Randall, MLA; Mr. David Schreck, MLA; Mr. Ken Jones, MLA; Mr. Lyall Hanson, MLA.

Officials

Office of the Auditor General

Mr. George Morfitt, Auditor General
Mr. Gordon Dawson, Executive Principal
Mr. Frank Barr, Executive Principal
Mr. Russ Jones, Manager

Office of the Comptroller General

Mr. Alan Barnard, Acting Comptroller General
Mr. Vic Skaarup, Accounting and Reporting

1. The debate resumed on the motion adjourned by Mr. B. Jones, MLA (May 13, 1992) that:

   Your Committee supports the recording of the Government's pension obligations in its accounts and financial statements in the manner recommending for governments by the Canadian Institute of Chartered Accountants in its public sector accounting statement #5; and recommends that the Government implement this manner of recording in the preparation of the 1991-92 financial statements of the Government.

   The debate continuing, it was moved by Ms. J. MacPhail, MLA, in amendment thereto that the motion read that:

   Your Committee supports the recording of the Government's pensions obligations in its accounts and financial statements, and recommends that the Government record its pension obligations with respect to the Pension (Public Service) Act in the preparation of the 1991-92 financial statements of the Government.

   The question being put on the amendment it was agreed to. The question being put on the motion as amended it was agreed to.

2. The Committee resumed debate on various documents prepared by the Acting Comptroller General relating to MLA and employee salary and expense reporting, grants and contribution payments reporting and reporting of payments for supplies or services.

3. **Resolved**, That the Committee supports the detailed reporting of salary and travel for employees, other than Order in Council or other appointees, only where the employee's salary is $50,000 per annum or higher. (D. Schreck, MLA)

4. **Resolved**, That the Schedules of Indemnities and Allowances paid to Members of the Legislative Assembly contain, at a minimum, the following tabular information: Sessional Indemnity, Capital City Allowance and Ministerial Travelling Expenses. (H. Lali, MLA)

5. The Committee agreed that the reporting of grants and contribution payments in the 1991-92 Public Accounts remain as previously reported.

6. **Resolved**, That the reporting of payments to suppliers and grant recipients in the Public Accounts remain the same. (K. Jones, MLA)

7. **Public Hearing**: Unrecorded Lottery Grants.

8. Unrecorded Lottery Grants: **Hearing Concluded.**

9. **Public Hearing:** British Columbia Hydro and Power Authority preferred lending.

10. During consideration of the British Columbia Hydro and Power Authority preferred lending, the Committee requested that a senior official of the Authority be called before the Committee.

11. British Columbia Hydro and Power Authority preferred lending: **Hearing Adjourned**.

12. **Public Hearing:** Accounting for government transfers.

13. Accounting for government transfers: **Hearing Adjourned.**

14. The Committee requested the Acting Comptroller General amend the Schedules of Indemnities and Allowances paid to the Members of the Legislative Assembly and table the revised document as soon as possible.

15. The Committee adjourned at 10:15 to the call of the Chair. (L. Hanson, MLA)

Wednesday, May 27, 1992
Douglas Fir Committee Room (226)
Parliament Buildings
Victoria
8:45 a.m.

MINUTES

Present: Mr. Fred Gingell, MLA (Chairperson); Ms. Joy MacPhail, MLA (Deputy Chairperson); Mr. Harry Lali, MLA; Mr. Barry Jones, MLA; Mr. Fred Randall, MLA; Mr. David Schreck, MLA; Mr. Gary Farrell-Collins, MLA; Mr. Ken Jones, MLA; Mr. Lyall Hanson, MLA.

Officials

Office of the Auditor General

Mr. Gordon Dawson, Executive Principal
Mr. Errol Price, Principal
Ms. Katherine Crawley, Senior Auditor

1. **Public Hearing:** B.C. Hydro and Power Authority preferred funding.

Witnesses

British Columbia Hydro and Power Authority

Frank Klassen, Senior Vice-President, Finance
David Harrison, Corporate Controller

2. **Resolved**, That B.C. Hydro and Power Authority and the Comptroller General consult more closely on the issue raised by the Auditor General to resolve outstanding differences. (F. Randall, MLA)

3. B.C. Hydro and Power Authority preferred funding: **Hearing Concluded.**

4. **Public Hearing:** Industrial Incentive Fund.

   Witnesses

   Ministry of Economic Development, Small Business and Trade

   Mr. Mark Lofthouse
   Mr. Nick Greerdiuk
   Mr. Brian Dolsen

5. Industrial Incentive Fund: **Hearing Concluded.**

6. The Committee adjourned at 10:20 a.m. to the call of the Chair. (B. Jones, MLA)

Wednesday, June 3, 1992
Douglas Fir Committee Room (226)
Parliament Buildings
Victoria
8:45 a.m.

MINUTES

Present: Mr. Fred Gingell, MLA (Chairperson); Ms. Joy MacPhail, MLA (Deputy Chairperson); Mr. Harry Lali, MLA; Mr. Barry Jones, MLA; Mr. Norm Lortie, MLA; Mr. Fred Randall, MLA; Mr. David Schreck, MLA; Mr. Gary Farrell-Collins, MLA; Mr. Ken Jones, MLA.

Officials

Office of the Auditor General

Mr. George Morfitt, Auditor General
Mr. Gordon Dawson, Executive Principal
Mr. Roger Brown, Audit Manager

Office of the Comptroller General

Mr. Alan Barnard, Acting Comptroller General
Mr. Vic Skaarup, Accounting and Reporting

1. **Public Hearing:** Compliance with the Financial Information Act.

2. The Auditor General and Acting Comptroller General briefed the Committee on issues related to compliance with the Financial Information Act.

3. Compliance with the Financial Information Act: **Hearing Concluded.**

4. The Committee adjourned at 10:15 a.m. to the call of the Chair. (D. Schreck, MLA)

Wednesday, June 10, 1992
Douglas Fir Committee Room (226)
Parliament Buildings
Victoria
8:45 a.m.

MINUTES

Present: Mr. Fred Gingell, MLA (Chairperson); Ms. Joy MacPhail, MLA (Deputy Chairperson); Mr. Barry Jones, MLA; Mr. Norm Lortie, MLA; Mr. Fred Randall, MLA; Mr. David Schreck, MLA; Mr. Ken Jones, MLA; Mr. Lyall Hanson, MLA.

Officials

Office of the Auditor General

Mr. George Morfitt, Auditor General
Mr. Gordon Dawson, Executive Principal
Mr. Keyvan Ahmadi, Audit Manager

Office of the Comptroller General

Ms. Kit Chapman, Manager of Reporting

1. **Public Hearing**: General Standards of financial statement presentation.

2. The Office of the Auditor General and the Office of the Comptroller General briefed the Committee on issues related to general standards of financial statement presentation.

3. It was moved by Mr. Barry Jones, MLA that:

   A legislative amendment is recommended for the purposes of section 1 of the Financial Information Act. In this Act, "Corporation" means (c) an organization or enterprise that is included in the reporting entity for purposes of the Government's summary financial statements.

   A debate arising, it was on motion of Mr. Fred Randall, MLA adjourned.

4. General Standards of financial statement presentation: **Hearing Adjourned.**

5. The Committee adjourned at 9:55 a.m. to the call of the Chair. (J. MacPhail, MLA)

Wednesday, June 17, 1992
Douglas Fir Committee Room (226)
Parliament Buildings
Victoria
8:45 a.m.

MINUTES

Present: Mr. Fred Gingell, MLA (Chairperson); Ms. Joy MacPhail, MLA (Deputy Chairperson); Mr. David Schreck, MLA; Mr. Ken Jones, MLA

Officials

Office of the Auditor General

Mr. Gordon Dawson, Executive Principal
Mr. Keyvan Ahmadi, Audit Manager

Office of the Comptroller General

Mr. Alan Barnard, Acting Comptroller General
Mr. Vic Skaarup, Accounting and Reporting

1. By consensus, the Committee agreed to meet.

2. **Public Hearing:** Amounts recoverable through future appropriations.

3. Officials from the Office of the Auditor General and the Office of the Comptroller General briefed the Committee on the issue of amounts recoverable through future appropriations.

4. Amounts recoverable through future appropriations: **Hearing Adjourned**

5. **Public Hearing:** Defining the Government reporting entity.

6. Officials from the Office of the Auditor General and the Office of the Comptroller General briefed the Committee on the issue of defining the Government reporting entity.

7. Defining the Government reporting entity: **Hearing Adjourned**.

8. The Committee Clerk circulated a further draft **First Report** dated June 16, 1992.

9. By consensus, the Committee adjourned at 10:15 a.m.

Wednesday, June 24, 1992
Douglas Fir Committee Room (226)
Parliament Buildings
Victoria
8:45 a.m.

MINUTES

Present: Mr. Fred Gingell, MLA (Chairperson); Ms. Joy MacPhail, MLA (Deputy Chairperson); Mr. Barry Jones, MLA; Mr. Fred Randall, MLA; Mr. David Schreck, MLA; Mr. Ken Jones, MLA.

Officials

Office of the Auditor General

Mr. George Morfitt, Auditor General
Mr. Gordon Dawson, Executive Principal

Office of the Comptroller General

Mr. Alan Barnard, Acting Comptroller General

1. The Committee Clerk distributed a draft First Report.

2. The Committee resumed the adjourned debate on the motion moved by Mr. Barry Jones, MLA that:

   A legislative amendment is recommended for the purposes of section 1 of the Financial Information Act. In this Act, "Corporation" means (c) an organization or enterprise that is included in the reporting entity for purposes of the Government's summary financial statements.

   The debate continuing, and the question being put, it was agreed to.

3. **Resolved**, That the Government increase its note disclosure of the Fiscal Agency Loan Program regarding loans repayable through future appropriations until a review of physical asset accounting can be completed and the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants has issued a statement on accounting for loans receivable. (D. Schreck, MLA)

4. **Resolved**, That the First Report, as amended, appended to these Minutes, be adopted. (D. Schreck, MLA)

5. **Resolved**, That the First Report be presented to the Legislative Assembly as soon as possible. (K. Jones, MLA)

6. The Committee adjourned at 9:10 a.m. to the call of the Chair. (J. MacPhail, MLA)

Appendix One

Public Documents Committee Recommendations

Ministry/Agency Name	Schedule Title	Sched. Number	Amend. Number	Annual Accum. (m3)	Actual Extent (m3)	Date Range	Final Disp.	Effective Date
	Operational Records Classification Systems							
Ministry of Energy, Mines and Petroleum Resources Energy Resources Division	Energy Resources ORCS: amendm	871196	107554	0.00		0000-0000	NA	See RRDA
Ministry of Finance and Corporate Relations Office of the Comptroller General	Office of the Comptroller Gene	880967		29.50		0000-0000	SR	See ORCS (See Binder)
Ministry of Solicitor General Driver Services Division	Driver Services Division ORCS:	870200	108108	0.00		0000-0000	NA	See RRDA

Total No. of Authorities: 3 Total Est. Annual Accumulation: 29.50 m3 Total Actual Extent: 0.00 m3

Ministry/Agency Name	Schedule Title	Sched. Number	Amend. Number	Annual Accum. (m3)	Actual Extent (m3)	Date Range	Final Disp.	Effective Date
Government-wide Records Schedules								
Ministry of Provincial Secretary								
Deputy Provincial Secretary	Commission of inquiry records	112907		2.00		0000-0000	SR See RRDA	
Deputy Provincial Secretary	Record copy of published maps	112908		5.00		0000-0000	SR See RRDA	

Total No. of Authorities: 2

Total Est. Annual Accumulation: 7.00 m3

Total Actual Extent: 0.00 m3

Ministry/Agency Name	Schedule Title	Sched. Number	Amend. Number	Annual Accum. (m3)	Actual Extent (m3)	Date Range	Final Disp.	Effective Date
Ongoing Records Retention and Disposal Authorities								
British Columbia Coroners Service								
British Columbia Coroners Service	Coroners' investigation case f	106058		3.20		0000-0000	SR	See RRDA
British Columbia Ferry Corporation								
Revenue								
Revenue	Revenue source documents	111564		40.00		0000-0000	SR	See RRDA
	Revenue input forms and journa	111731		4.00		0000-0000	SR	See RRDA
British Columbia Forest Resources Commission								
British Columbia Forest Resources Commissi	Newsclippings	104916		0.01		0000-0000	SR	See RRDA
British Columbia Housing Management Commission								
Records and Information Centre	Rent calculation files	880372		0.30		0000-0000	SR	See RRDA
Financial Institutions Commission								
Financial Institutions Commission	Credit union case files	105007		0.03		0000-0000	FR	See RRDA
Financial Institutions Commission	Insurance company incorporatio	105023		0.30		0000-0000	SR	See RRDA
Financial Institutions Commission	Credit union monthly and quart	106671		0.16		0000-0000	SR	See RRDA
Financial Institutions Commission	Credit union incorporation doc	107553		0.10		0000-0000	SR	See RRDA
Financial Institutions Commission	Trust company incorporation do	107563		0.06		0000-0000	DE	See RRDA
Financial Institutions Commission	Insurance company incorporatio	107564		0.30		0000-0000	SR	See RRDA
Financial Institutions Commission	Trust company incorporation do	891896		0.06		0000-0000	DE	See RRDA
Financial Institutions Commission	Credit union incorporation doc	891898		0.10		0000-0000	SR	See RRDA
Investigation	Complaints and investigations	107572		1.00		0000-0000	SR	See RRDA
Insurance Corporation of British Columbia								
Inter-jurisdictional Licensing	Prorate, reciprocity and finan	891890		0.50		0000-0000	SR	See RRDA
Medical Services Commission								
Pharmacare								
Registration and Premium Billing Branch	Pharmacare payment claims (pla	880228		6.00		0000-0000	SR	See RRDA
Registration and Premium Billing Branch	MSP system: job control langu	107552		1.30		0000-0000	DE	See RRDA
	Medical Services Plan change n	870788	110004	0.00		0000-0000	NA	See RRDA
Ministry of Attorney General								
Court Services Branch	Official reporter and court re	870630		32.00		0000-0000	SR	See RRDA
Finance and Administration	Negotiated trust cheques	107555		0.80		0000-0000	DE	See RRDA
Ministry of Environment								
Rivers Section								
Water Rights Branch	Fraser River flooding reports	107551		0.03		0000-0000	FR	See RRDA
	Water utility correspondence,	103517		0.40		0000-0000	SR	See RRDA
Ministry of Finance and Corporate Relations								
Boat, Aircraft and Motor Vehicles	Motor vehicles, boats, trailer	106677		0.15		0000-0000	DE	See RRDA

Ministry/Agency Name	Schedule Title	Sched. Number	Amend. Number	Annual Accum. (m3)	Actual Extent (m3)	Date Range	Final Disp.	Effective Date
Corporate Registry	Company files (1990/10/01 ongo	105031		9.00		0000-0000	FR	See RRDA
Corporate Registry	Company files: amendment 1	105078	102948	0.00		0000-0000	NA	See RRDA
Personal Property Registry	Financing statements	104145		16.00		0000-0000	SR	See RRDA
Real Property Taxation Branch	Land tax deferment transaction	105016		0.64		0000-0000	DE	See RRDA
Real Property Taxation Branch	Real property forfeiture absol	105079	105021	0.00		0000-0000	NA	See RRDA
Real Property Taxation Branch	Property taxation general corr	105080	105020	0.00		0000-0000	NA	See RRDA
Real Property Taxation Branch	Discharged and cancelled land	870106	102280	0.00		0000-0000	NA	See RRDA
Real Property Taxation Branch	Real property tax forfeiture -	870107	105022	0.00		0000-0000	NA	See RRDA
Real Property Taxation Branch	Home owner grant correspondenc	870380	105019	0.00		0000-0000	NA	See RRDA
Real Property Taxation Branch	Property taxation general corr	892116		1.00		0000-0000	DE	See RRDA
Real Property Taxation Branch	Real property tax forfeiture -	892118		0.32		0000-0000	DE	See RRDA
Resource Taxation	Real property tax forfeiture -	892119		0.06		0000-0000	DE	See RRDA
Revenue Administration Branch	Logging tax returns	880050		0.40		0000-0000	DE	See RRDA
Revenue Administration Branch	Consumer tax return batches:	105039	104206	0.00		0000-0000	NA	See RRDA
Securities Services	Vendor and operator case files	880039		4.16		0000-0000	DE	See RRDA
	Treasury bills (issued 1982/12	103083		0.32		0000-0000	DE	See RRDA
Ministry of Health								
Continuing Care Division	Care advice batches - long-ter	105018		0.40		0000-0000	DE	See RRDA
Division of Vital Statistics	Spoiled, returned and cancelle	106090		0.13		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Supplementary documentation (1	106094		0.05		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Deaths: supplementary documen	106095		0.05		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Stillbirths: supplementary do	106096		0.05		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Physician's notices of stillbi	106097		0.73		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Vital Statistics Information T	106098		0.00		0000-0000	FR	See RRDA (See Binder)
Division of Vital Statistics	Vital statistics amendment fil	106693		0.13		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Adoption Act order files	106695		0.16		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Wills notices	106696		1.02		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Change of name files	106697		0.22		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Change of name registrations	106698		0.06		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Marriages: supplementary docu	106699		0.05		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Marriage registrations	106700		0.51		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Death registrations	106701		0.80		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Stillbirth registrations	106702		0.03		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Births: supplementary documen	106703		0.05		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Physician's notices of birth	106704		0.73		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Birth registrations	106705		0.90		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Medical certificates of death	107556		0.13		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Birth, marriage, and death reg	107557		0.00		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Health surveillance registry c	107840		0.06		0000-0000	SR	See RRDA (See Binder)
Division of Vital Statistics	Vital event registrations inde	890091		1.06		0000-0000	SR	See RRDA (See Binder)
Facilities Planning and Construction Divis	Work order files	891837		8.60		0000-0000	SR	See RRDA (See Binder)
	Hospital planning and construc	106708		0.05		0000-0000	SR	See RRDA

Ministry/Agency Name	Schedule Title	Sched. Number	Amend. Number	Annual Accum. (m3)	Actual Extent (m3)	Date Range	Final Disp.	Effective Date
Facilities Planning and Construction Divis	Hospital planning and construc	870600		0.44		0000-0000	FR	See RRDA
Facilities Planning and Construction Divis	Hospital grant applications an	870871		0.02		0000-0000	DE	See RRDA
Public Health Nursing and Community Suppor	Physician's notice of a live b	104136		0.73		0000-0000	DE	See RRDA
Ministry of Labour and Consumer Services								
Debtor Assistance Branch	Collection agency records	870185		0.14		0000-0000	SR	See RRDA
Employers' Adviser Branch	Employers' advisers claim file	105010		0.30		0000-0000	SR	See RRDA
Investigation Services	Investigation case files	105013		0.26		0000-0000	SR	See RRDA
Liquor Distribution Branch	Liquor store daily batches	111033		32.00		0000-0000	SR	See RRDA
Motor Dealer Licensing	Motor dealer files	880187		0.30		0000-0000	SR	See RRDA
Policy and Legislation Branch	Collective agreements	870532		0.17		0000-0000	SR	See RRDA
Program Planning and Analysis	Alcohol and Drug Program clien	870453		2.50		0000-0000	SR	See RRDA
Residential Tenancy Branch	Residential tenancy dispute fi	106037		2.10		0000-0000	SR	See RRDA
Workers' Adviser Branch	Worker's advisers files	870870		0.50		0000-0000	SR	See RRDA
Ministry of Municipal Affairs, Recreation and Culture								
Development Programs	British Columbia Heritage Trus	105005		0.30		0000-0000	FR	See RRDA
Ministry of Provincial Secretary								
Business Immigration Branch	Business immigration proposal	105001		0.30		0000-0000	SR	See RRDA
Historical Records Section	Archival holdings - reappraise	106055		0.00		0000-0000	SR	See RRDA
Lottery Grants Branch	British Columbia Growth and Op	105419		0.80		0000-0000	SR	See RRDA
Technical and Support Services Section	Rejected microforms	103465		0.00		0000-0000	SR	See RRDA
Ministry of Social Services and Housing								
Computer Payments and Reconciliations	Imprest cheques	105033		5.80		0000-0000	DE	See RRDA
Financial Services Division (Victoria)	Daycare billing batches and au	870864		1.34		0000-0000	SR	See RRDA
Health Services Division	Orthodontic case files	105009		0.01		0000-0000	DE	See RRDA
Health Services Division	Extra-ordinary dental services	105011		0.10		0000-0000	DE	See RRDA
Income Assistance Division	Income assistance investigatio	105015		1.60		0000-0000	SR	See RRDA
Woodlands	Nursing service report books	105026		0.20		0000-0000	SR	See RRDA
Woodlands	Electroencephalogram tracings	105027		0.20		0000-0000	SR	See RRDA
Woodlands	Daily ward census reports	105028		0.03		0000-0000	SR	See RRDA
Ministry of Solicitor General								
Motor Carrier Division	Temporary operating permits	105775		0.32		0000-0000	SR	See RRDA
Motor Carrier Division	Motor Carrier Division case fi	111152		1.00		0000-0000	SR	See RRDA
Motor Carrier Division	Motor carrier licence and corr	892099		0.56		0000-0000	SR	See RRDA
Resource Analysis Section	Corrections Branch client dail	106641		0.10		0000-0000	SR	See RRDA
Vehicle Services Division	Temporary vehicle permits	880560		0.75		0000-0000	SR	See RRDA
Motor Carrier Commission								
Motor Carrier Commission	Motor Carrier Commission case	105776		0.64		0000-0000	SR	See RRDA

British Columbia Archives and Record· rvice
PAC ATTACHMENT REPORT

Ministry/Agency Name	Schedule Title	Sched. Number	Amend. Number	Annual Accum. (m3)	Actual Extent (m3)	Date Range	Final Disp.	Effective Date
Purchasing Commission								
Postal and Distribution Services	PSB Mail Plus System source do	107548		2.70		0000-0000	DE	See RRDA
Product Sales and Service (Enterprise Grou	Stationery and printing requis	107536		0.90		0000-0000	SR	See RRDA
Product Sales and Service (Enterprise Grou	Purchase documents	107540		1.60		0000-0000	SR	See RRDA
Supply Services and Marketing	Queen's Printer procurement re	103638		1.25		0000-0000	SR	See RRDA
Superannuation Commission								
Superannuation Commission	Superannuation microfiche file	107135		6.40		0000-0000	SR	See RRDA

Total No. of Authorities: 100

Total Est. Annual Accumulation: 205.03 m3

Total Actual Extent: 0.00 m3

Ministry/Agency Name	Schedule Title	Sched. Number	Amend. Number	Annual Accum. (m3)	Actual Extent (m3)	Date Range	Final Disp.	Effective Date
One-time Records Retention and Disposal Authorities								
British Columbia Enterprise Corporation								
British Columbia Enterprise Corporation	Expo 86 architectural sketches	891659			0.71	1979-1987	FR	Upon Approval
British Columbia Securities Commission								
British Columbia Securities Commission	Company and individual files s	870305			35.87	1975-1986	SR	See RRDA
British Columbia Systems Corporation								
Data Base Application Support	IBM database II project files	880934			0.10	1977-1987	DE	Upon Approval
Medical Services Commission								
Pharmacare	Pharmacare accounts records	880229			2.44	0000-1985	DE	Upon Approval
Ministry of Agriculture, Fisheries and Food								
Assistant Deputy Minister, Agriculture Div	General office files	880639			0.10	1987-1988	DE	Upon Approval
Ministry of Attorney General								
Assistant Deputy Minister, Management Serv	Files maintained by Mr. R.C. S	891912			0.22	1980-1988	SR	1999/04/01
Legal Services to the Ministry of Health	General office files	106376			0.19	1981-1987	SR	1995/01/01
Legal Services to the Ministry of Health	General office files	106765			0.10	1976-1988	SR	1996/01/01
Policy and Program Services Division	General office files	100098			0.35	1980-1989	SR	1994/02/01
Policy and Program Services Division	General office files	100101			0.26	1975-1988	SR	1994/01/01
Policy and Program Services Division	General office files	100136			0.06	1981-1989	SR	1994/12/01
Solicitors Division (Victoria)	General office files	102308			0.48	1983-1988	SR	1995/01/01
Ministry of Development, Trade and Tourism								
Tourism Division	General office files	880412			0.22	1978-1986	SR	Upon Approval
Ministry of Energy, Mines and Petroleum Resources								
Energy Resources Division	Energy policy development file	870576			4.23	1975-1987	SR	1999/01/01
Energy Resources Division	General subject files - Energy	880100			0.58	1985-1985	DE	1993/01/02
Petroleum Engineering and Operations Branc	Petroleum lease correspondence	871055			0.90	1960-1987	DE	Upon Approval
Petroleum Titles Branch	Crown sale dispositions	871167			0.10	1982-1985	DE	Upon Approval
Petroleum Titles Branch	Petroleum and natural gas perm	871225			0.03	1987-1987	DE	1993/01/02
Petroleum Titles Branch	Petroleum seismic programs	871227			0.06	1986-1986	DE	Upon Approval
Ministry of Environment								
District Office (Terrace)	General office files	880175			0.13	1970-1987	DE	Upon Approval
Enforcement and Outdoor Recreational Safet	Boating restrictions and river	891518			0.10	1979-1989	SR	2011/04/01
Environmental Protection Division	EQUIS (Environmental Quality I	880605			0.19	1973-1985	FR	1993/07/01
Fish and Wildlife, Regional Office (Prince	Permit files/referrals	870992			0.29	1974-1985	DE	1993/05/01
Kootenay Regional Headquarters, Region 4 (	General office files	880687			1.02	1980-1986	DE	1993/08/01

Ministry/Agency Name	Schedule Title	Sched. Number	Amend. Number	Annual Accum. (m3)	Actual Extent (m3)	Date Range	Final Disp.	Effective Date
Northern Regional Headquarters (Prince Geo	General office files	870981			0.38	1971-1987	DE	Upon Approval
Vancouver Island Regional Headquarters (Na	General office files	860434			2.24	1970-1986	DE	Upon Approval
Water Supply and Drainage Section	Agriculture and Rural Developm	890855			0.26	1969-1988	DE	Upon Approval
Ministry of Finance and Corporate Relations								
Banking and Cash Management Branch	Cash management records	870565			0.48	1983-1986	DE	1993/04/01
Banking and Cash Management Branch	Cash management banking files	870848			1.09	1983-1987	DE	1994/04/01
Consumer Taxation Branch	Consumer Taxation Branch admin	870463			0.03	1984-1986	DE	Upon Approval
Contract Administration and Administrative	Data entry records (mortgage s	870718			1.12	1981-1987	DE	1995/03/01
Government Personnel Services Division	Financial records - provincial	860799			0.13	1977-1986	DE	Upon Approval
Information Technology Management Branch	Data dictionary documentation	860651			0.10	1979-1985	DE	1993/01/01
Investments Branch	Investment records	870060			1.25	1982-1986	DE	1992/11/01
Investments Branch	Investment records	870241			0.42	1985-1986	DE	1994/04/01
Investments Branch	Investment records	880054			0.42	1985-1987	DE	1994/04/01
Minister	General office files	890087			0.32	1986-1987	SR	1998/01/01
Personal Property Registry	Particulars of a mortgage of m	102863			2.24	1930-1990	SR	See RRDA
Provincial Treasury	Debt reporting computer runs	860359			0.19	1984-1985	DE	1993/04/01
Provincial Treasury	Capital financing records	870130			0.22	1982-1985	DE	1993/04/01
Real Property Taxation Branch	Administrative records and min	860260			0.26	1978-1985	DE	Upon Approval
Real Property Taxation Branch	Administration records and min	870504			0.10	1980-1985	DE	Upon Approval
Real Property Taxation Branch	Parcel tax input documents	870574			0.10	1986-1986	DE	1993/01/01
Revenue Administration Branch	Budget control records	870479			0.06	1982-1986	DE	Upon Approval
Revenue Administration Branch	Expenditure vouchers and reven	870485			0.26	1983-1986	DE	1994/01/01
Revenue Administration Branch	Consumer taxation returns syst	870614			0.10	1985-1986	DE	Upon Approval
Securities Services	Completed deposit books	870240			0.10	1984-1986	DE	1993/04/01
Ministry of Forests								
Forest District (Mackenzie)	Cutting permit files	870418			0.19	1980-1985	DE	Upon Approval
Ministry of Health								
Data Processing and Information Services	Care advice batches, applicati	870104			3.55	1982-1985	DE	See RRDA
Hearing Services Branch	Speech and hearing HLTH 1441 a	881226			0.25	1980-1987	DE	See RRDA
Hospital Care Division	Hospital Programs operational	880238			0.41	1959-1987	SR	1994/01/01
Information and Analysis Branch	Hospital information monitorin	880784			0.75	1981-1989	DE	See RRDA
Operations Branch	General office files	871213			0.42	1978-1986	DE	1994/04/01
Program Support Services Branch	Community residential program	881318			0.31	1984-1987	DE	See RRDA
Regional Team 4 (Okanagan Valley/Kootenays	Budget and master record files	880476			0.38	1982-1986	DE	1996/01/01
Systems Division	General office files	871017			0.10	1984-1986	DE	Upon Approval
Ministry of Labour and Consumer Services								
Alcohol and Drug Programs	Alcohol and Drug Program, Lang	870946			0.35	1981-1987	DE	See RRDA
District Office (Kamloops)	Financial and administrative r	870988			0.27	1974-1987	DE	See RRDA
Liquor Distribution Branch	Liquor distribution records	111031			240.00	0000-1988	SR	Upon Approval

Ministry/Agency Name	Schedule Title	Sched. Number	Amend. Number	Annual Accum. (m3)	Actual Extent (m3)	Date Range	Final Disp.	Effective Date
Minister	Ministers' general office and	871133			1.60	1983-1986	SR	1995/01/01
Minister	General office files	890093			0.48	1982-1986	SR	1997/01/01
Regional Office (Fraser Valley)	General office files	871200			0.16	1983-1986	DE	1993/04/01
Ministry of Lands and Parks								
Parcel-Based Systems Section	Cadastral tie plans	101632			0.29	1950-1985	DE	1995/05/01
Program Services Section	Crown land leases	101644			0.48	1960-1990	DE	Upon Approval
Surveys and Resource Mapping Branch	Medium scale mapping manuscrip	870612			9.06	1981-1986	SR	1998/01/01
Surveys and Resource Mapping Branch	1:5,000 orthophoto production	870973			0.20	1979-1986	SR	Upon Approval
Ministry of Provincial Secretary								
British Columbia Archives and Records Serv	Photograph of directors of Gov	103011			0.00	1990-1990	FR	Upon Approval
Ministry of Social Services and Housing								
Assistant Deputy Minister, Corporate Plann	General office files	881433			0.22	1987-1987	SR	1998/01/01
Family Maintenance Program (Vancouver)	Family support program files	871144			2.75	1985-1987	DE	1994/08/01
Family and Children's Services Division	General office files	881541			0.16	1974-1987	SR	1995/01/01
Records Management Unit (Richmond)	Management Information Service	870618			1.81	1985-1987	DE	See RRDA
Ministry of Solicitor General								
Commercial Transport Division	Motor vehicle permits	892117			0.28	1984-1988	DE	Upon Approval
Correctional Centre (Alouette River)	General office files	100205			0.51	1972-1989	SR	Upon Approval
District Office 1 (North West Coast)	General office files	102722			1.15	1970-1988	DE	Upon Approval
District Office 4 (Maple Ridge)	General office files	100199			1.18	1981-1987	DE	Upon Approval
Financial Administration Section	General office files	102744			1.31	1985-1990	DE	See RRDA
Financial Administration Section	General office files	108101			1.92	1970-1988	DE	See RRDA
Motor Vehicle Branch	General office files	105516			9.28	1971-1987	DE	See RRDA
Probation and Family Court Services (Seche	General office files	102710			0.03	1980-1985	DE	Upon Approval
Program Analysis and Evaluation Section	Policy and program records	100195			2.27	1975-1986	SR	1994/01/01
Program Support Services	Alternative measures data coll	102704			0.10	1987-1988	DE	Upon Approval
Vehicle Records Section	General office files	109514			0.19	1984-1989	DE	1993/01/01
Purchasing Commission								
Vehicle Management Services Branch	Vehicle maintenance records	103656			0.96	1984-1988	DE	Upon Approval

Total No. of Authorities: 83 Total Est. Annual Accumulation: 0.00 m3 Total Actual Extent: 343.97 m3

British Columbia Archives and Recor ervice
PAC ATTACHMENT REPORT

Total No. for Destruction:	76	Est. Annual Accumulation:	19.03 m3	Actual Extent:	43.52 m3
Total No. for Sel. Retention:	93	Est. Annual Accumulation:	212.70 m3	Actual Extent:	299.55 m3
Total No. for Full Retention:	9	Est. Annual Accumulation:	9.80 m3	Actual Extent:	0.90 m3
Total No. for N.A.:	10				
GRAND Total No. of Authorities:	188	Total Est. Annual Accumulation:	241.53 m3	Total Actual Extent:	343.97 m3

*Sorted By: Sched. Acquis. Code, S.A. Status (Descending), C.L.C. (Level 2 & Lowest Level Name), S.A. Number and S.A. Tracking Entry Date

--- End Of Report ---

Appendix Two

Canadian Council of Public Accounts Committees Constitution

(Amended July 9, 1986)

1. The Canadian Council of Public Accounts Committees is hereby established.

2. The aims of the Council are:

   (a) To facilitate the exchange of information and opinion relating to Public Accounts Committees and to discuss matters of mutual concern.
   (b) To improve the quality and performance of Public Accounts Committees in Canada to ensure that taxpayers are getting value for money.
   (c) To work with Auditors General so as to improve the effectiveness of both the Auditors and the Public Accounts Committees.
   (d) To work with individuals and organizations knowledgeable about matters of concern to Public Accounts Committees.
   (e) To educate the elected Members, the media and the general public as to the purposes and activities of Public Accounts Committees.

3. Membership in the Council is open to legislators who are members of all Canadian Public Accounts Committees or of similar legislative committees scrutinizing public spending.

4. The Council shall meet annually, with the meetings open to legislators and staff of the Public Accounts Committees.

5. In case of questions to be decided at the annual meeting, one vote may be cast by the House of Commons Public Accounts Committee and by the Public Accounts Committee (or equivalent) of each province or territory.

6. (a) The Board of Directors of the Council shall be comprised of a President and two Vice-Presidents elected by the Council, and serving at pleasure whenever possible, the Public Accounts Committee Chairman of the jurisdiction in which the annual meeting is to be held shall be a member of the Board of Directors. The Members of the Board of Directors shall be chairmen of the Public Accounts Committees, or similar bodies and shall be elected at an Annual General Meeting.
   (b) The Board of Directors shall meet once yearly between the annual meeting.
   (c) Whenever possible, the Committee Clerk of the jurisdiction in which the annual meeting is to be held, shall be secretary to the Board of Directors.
   (d) An executive secretary shall be elected every two years at the annual meeting and whose function it will be to coordinate the publication of the Public Accounts series in the Canadian Parliamentary Review.

7. (a) A quorum of the Council shall be 7 voting members.
   (b) A quorum of the Board shall be 2 voting members.

Appendix Three

Transcripts of Proceedings

WEDNESDAY, APRIL 8, 1992

The committee met at 8:15 a.m.

THE CHAIR: I'd like to call the meeting together. An agenda has been presented.

A VOICE: So moved.

Motion approved.

THE CHAIR: The first item on the agenda is terms of reference.

C. JAMES: This being the orientation seminar that the committee was talking about last week, you will see on the agenda that the three components to today's meeting are essentially myself and a brief cursory overview of the terms of reference and procedures for the record, since we have *Hansard* present this morning, and then over to Alan Barnard in the comptroller shop, and then George Morfitt and the auditor general's area.

Last week we handed out the binder containing a variety of bits and pieces of information. Very briefly, the terms of reference which were alluded to last week are under tab A, for those who have a copy of the binder in front of them. For those who don't, the issue is terms of reference and procedural notes. Very succinctly, this committee is empowered to examine anything that the House refers to it. Only the House can refer issues to this committee; the committee cannot, on its own, go out and undertake inquiries that it feels would be most appropriate.

The matters that are currently before this committee are the auditor general's report — this green document dated January 1992, which was referred by the Minister of Finance a couple of weeks ago — and the public accounts for 1990-91. Of course, the auditor general and the comptroller will be dealing with those later on.

The other issue that we're organizing that is going to be before the committee shortly — and I suspect it will be next week — is the application for the retention and disposal of government records for the province of B.C. The public documents committee will, in fact, be available as early as next week to go over the work they do. Then both they and I will discuss the role of this committee in relation to the work that the public documents committee does.

Further to that, the procedural note deals with some constitutional matters which arise under section 69 of the Constitution Act, which provides statutory limitations — for want of a better word — of the ability of a select standing committee to function, provided that specific instructions are given to the committee. So if this committee was allowed to travel, that would need to be provided for in its terms of reference. If it were allowed to form subcommittees, again that would have to be provided for in the terms of reference. The ability to retain personnel to assist the committee would also need to be included in the terms of reference. The terms of reference can only be changed by the House and not by the committee itself.

And then a very brief blurb on. . . .

THE CHAIR: May I stop you there? If there was a change made to the terms of reference by the House, would it be from that point onward, or would that just die when the committee is one year old? Or would it follow through the whole of the. . . ?

C. JAMES: All legislative committees are struck for the life of a legislative session, so upon prorogation, all committees die. Then in the following session — that second session — the legislative committees would need to be restruck, as you will notice they are on opening day on a pro forma motion. So if this committee's terms of reference were amended in any way, it would take effect from the date on which the motion was adopted in the House and would expire upon prorogation.

THE CHAIR: And prorogation is the end of that series of sittings or the end of that parliament?

C. JAMES: The end of the session. The end of the parliament would be the dissolution. Members should be aware that this committee, to date, has no ability to meet intersessionally or during a period of adjournment, so that if the House was to rise at the end of June and not return until the fall or the spring, the committee would not be able to meet during that period.

THE CHAIR: Has that ever been changed?

C. JAMES: Not to my knowledge. I know the committee actually received leave to sit one afternoon in the third or fourth session, while the House was sitting. I believe the committee met for a couple of hours, but that was the extent of it.

What else can I say? Standing order 71 for the British Columbia Legislative Assembly applies to all legislative committees and, of course, in particular to the functioning of this committee. Should this committee find itself in a conundrum or a dispute over terms of reference or procedure, that should guide the committee in its deliberations, the decision and the resolution of that dispute needs to be resolved within the committee. The committee is really the master of its own affairs in that respect, and actually it is most able to interpret its own terms of reference.

When it comes time to writing the report, there are no minority reports, but the committee report will presumably be presented to the House by the Chairperson, and it proceeds through a variety of stages. It could ultimately be adopted by the House, at which point it would be a debatable motion, and anyone who may dissent or wish to express their views on the work of this committee would have an opportunity, as with all motions that flow through the House.

If there are no other questions, maybe I could leave it at that. If there are questions afterwards, feel free to give me a shout.

A. BARNARD: What I thought I would do this morning, Mr. Chair, with your permission, would be to give a general overview of the comptroller general's position, what our office is responsible for; then take a look at the financial management framework this

government operates under; and then talk a little bit about the accounting in the public accounts, if that's okay with you.

The comptroller general's job is in fact a statutory position. The government is required to appoint a comptroller general for program and functional responsibilities. The position reports to Treasury Board. It is part of the Ministry of Finance and Corporate Relations, really, in terms of care and feeding, not necessarily as a direct reporting relationship to the Minister of Finance per se, but more in his role as chairman of Treasury Board.

In essence, the comptroller general is the chief accountant for government and is functionally responsible for the quality of the financial management across the whole of government. So we have a considerable influence in the way ministries do their financial management, and this actually extends to some degree into Crown corporations as well.

I have handed out to everybody a little functional chart to show how our office is organized and to cover the things that we do. Starting over on the left-hand side is our internal audit section, headed by Mr. Hepburn. These internal audits tend to be of a different nature. There are probably about four different kinds of audits that we do. The first — and, I think, the most important — kind are those that we do on behalf of management, where management asks us to go in and do an audit on their operations. It is performed by way of a management service. Those reports go to the deputy minister of the ministry concerned, and only on the ministry's say-so would we ever release those reports to anybody else.

The second kind of audit that we perform is one which is done really on behalf of the comptroller general, in terms of supporting our concern for good financial management across government. We go out and do some surprise audits in various field offices of ministries to make sure that all of the policies, procedures and legislation are being followed and that there are no internal control weaknesses. These result in reports back to the ministry on our findings and requests to improve where improvement is necessary.

We also get involved in some special-request audits on behalf of Treasury Board, where the chairman of Treasury Board has asked us to go in and do a specific review. Those tend to be a little more high-profile in nature. Another client for those kinds of audits is cabinet, and the type of reviews performed there can really be split into two. One is an audit function which tends to be very much internal; but we also get into some reviews which are quite public. One example is when we did the investigation into the Go B.C. grant to the Semiahmoo House Society, the Reid situation. This was a very public type of review, and it was done using the powers that the comptroller general has as a commissioner under the Inquiry Act.

So that's a very quick overview of the internal audit function.

THE CHAIR: You said four, Alan.

A. BARNARD: I was splitting the reviews and the.... So that's in essence our client groups and what we're doing.

THE CHAIR: So what determines whether you do the audit or the auditor general does is that the auditor general works independently and you respond.

A. BARNARD: We act on behalf of government and of management, and the requests for our services come either through ministries directly to us or through Treasury Board.

K. JONES: Do you also act on the direction of the auditor general?

A. BARNARD: No.

K. JONES: On any indication of his report, do you then start an investigation?

A. BARNARD: We would do that if we felt that it was necessary, but it's not at the direction of the auditor general. Purely from Treasury Board.

K. JONES: Following up a report or something like that.

A. BARNARD: We would do follow-ups as a natural course of good management, but it wouldn't necessarily be at the direction of the auditor general.

The next branch is the financial management branch, headed by Vic Skaarup, and that is responsible for all of the accounting, the public accounts. We have a considerable training function. We go out and do a lot of training across government in financial management. We've been running a series of courses now for several years, and we've put several thousand people through these courses in terms of giving them a good understanding of government's financial structure.

They're also responsible for amendments to the Financial Administration Act as it relates to financial management matters, and for reviewing all financial legislation, to ensure consistency with the Financial Administration Act.

They also do the annual supply bills. Any time you see a supply bill coming into the House, it has actually originated in our office. We also have the financial policy people in that branch, and they develop the financial policies which are applicable across the whole government.

[8:30]

D. SCHRECK: Could you give an idea of how many staff are in each of these functions?

A. BARNARD: The total office staff in the comptroller general's office is approximately 140. In internal audit there are about 25 right now, and in the financial management group there are probably 32.

The next group is what we call our common accounting systems operations group. In essence, they are the technical support to the payroll system, the central payments and the accounting system, in a

computer-technical sense. This is operated by some staff, some seconded employees from B.C. Systems Corporation and a few contractors. It tends to be very much a support function to the rest of the office.

THE CHAIR: What does CAS stand for?

A. BARNARD: Common accounting systems.

THE CHAIR: How many FTEs are there, roughly?

A. BARNARD: I haven't got that figure at the moment, because we're doing some reorganization. If you want the exact numbers, I can get them for you.

THE CHAIR: Just a guess.

A. BARNARD: I think 12 would be about right.

Government payment services. The accent here is very much on the services. We have a payroll office, and everybody has a vital interest in that. We're paying about 30,000 to 35,000 people every two weeks. It's a very intensive operational type of shop.

In addition, of course, we make pretty well all the supplier payments and grant payments. Things of that nature go through our office. There's a throughput on the payroll side, as I've mentioned. On the supplier side, the volume runs at about 3.5 million to 4 million separate payments a year. It's a big system, and it does a lot of processing.

D. SCHRECK: If somebody complains about a cheque being late, this is the section responsible.

A. BARNARD: A lot of people believe that. I'm very glad you asked that question, because it gives me a chance to brag. We have set a standard for turnaround in our office of 48 hours, from when we get a request for payment from a ministry until the day the cheque is issued. We consistently meet that.

J. MacPHAIL: Can you start paying us?

A. BARNARD: It's interesting, in that we have had complaints about late payments. It's very interesting to follow where the delays are occurring. Quite frequently a supplier doesn't invoice on a timely basis, and it goes to a branch office. It's a long chain. But in our office the turnaround is consistently very fast.

The next group is a little project office, which is. . . .

THE CHAIR: How many FTEs roughly?

A. BARNARD: We've got a small office in Vancouver which does a control over the GAIN payment runs. Including the Vancouver office, there would be about 60 people altogether. I'm going to end up with more than 140 by the end.

THE CHAIR: We're adding up, as a matter of fact.

A. BARNARD: I thought you would be.

THE CHAIR: I must admit that I was concerned when you said they make up 30,000 to 35,000 payroll cheques. It had better not be any more than 29,470.

A. BARNARD: That's the difference between FTEs and payroll cheques. A lot of people who are working part-time do not count as a full FTE, but they count as a full payment on the cheque run.

N. LORTIE: Could you tell me how the system works when you're issuing suppliers' cheques? Do they go directly to the supplier from your office, or do they go back through the chain?

A. BARNARD: Most times they would go directly to the supplier, but on occasion they are directed back through the ministry because of some particular reason.

N. LORTIE: I worked in an industry before where we were reluctant to sell to government because of the length of time it took to get paid for the product. We were on a seven-day-net system.

A. BARNARD: A seven-day net would be very difficult for any large organization to meet. We do that in the case where we have contracts specifically calling for payment in that length of time. But as a general run, probably 80 to 85 percent of our payments now go out very close to 30 days. We measure this quite consistently.

The small project group is the GASSP implementation group: the government accounting systems strategic plan. The concept here is to bring in a common accounting system for all ministries to use across government, as opposed to our current situation, where we have five basic accounting systems, and various combinations of those, which entail rather a lot of reconciliations and duplication of effort. It's a project to try and bring a little more efficiency into our accounting system.

THE CHAIR: The item in the budget in the last couple of years — the $3 million or $4 million to deal with the modernization. . . .

A. BARNARD: That's it; that is a project team. The project is made up partly by contractors, people seconded from ministries, and things of that nature, and I do not have a count of exactly who we would count in that. The actual number of FTEs involved as far as the OCG is concerned, I think, is only three.

B. JONES: There's no other meaning to the acronym?

A. BARNARD: Yes, there was, actually. We suggested at the time that this was the last "GASSP" we would have in terms of ever doing something like this if we didn't get it done in time. That's why we let it stick.

The final group is just our little support services group. These are the people who do our own internal payments processing, our personnel work, management reporting, and things of that nature. There are six people there, not all full-time.

D. SCHRECK: Could we back up one step? The special project then is responsible for bringing about better consistency in government accounting systems across the board?

A. BARNARD: Yes. It's actually implementing a common system that has been approved by Treasury Board.

J. MacPHAIL: Where in this operation, if ever, does our government account for the money we give to school boards and hospitals? Does your office, the comptroller general, have any control? Is there any reverse accounting that they have to do to our government?

A. BARNARD: In terms of what they do with the money?

J. MacPHAIL: Yes. I assume we give them money; we write them cheques. Then who functions as the comptroller general for that money?

A. BARNARD: The ministry itself would be responsible for making sure that the schools or the hospitals or whoever receives this grant money uses it for the purpose for which it was designed. It is not the comptroller general's function directly. We could be called in to do something along an investigative line, but we don't. . . .

THE CHAIR: If there were any questionable things happening?

A. BARNARD: Yes.

THE CHAIR: In the normal course of events they can only spend the money in accordance with their own act, and then they will always be required to have an audit done.

J. MacPHAIL: Themselves?

THE CHAIR: Yes.

A. BARNARD: We report everything that is paid to every single school division. . . .

J. MacPHAIL: What about hospitals? Hospitals as well?

A. BARNARD: Yes.

D. SCHRECK: We look at how far their tentacles go, as it were — at what stage we end the audit. What I hear being said is that on the government books it shows as a grant, and our books close by acknowledging that the grant was paid and received; how the grant is disbursed within a school or a hospital or whatever is a separate level of government and accounting, and the only tie between them and us is what statute exists to establish that tie. Is that correct?

THE CHAIR: Can you speak just a little louder?

J. MacPHAIL: Actually, Fred knows more about this problem than anyone. You were on the school board, right?

THE CHAIR: Yes.

D. SCHRECK: What I'm saying, Fred. . . . Is my understanding correct that it is the jurisdiction of this committee to look at how money is spent, and the jurisdiction of the comptroller general and the auditor general is verifying that the grant has been paid and received? How the grant is disbursed is then within the accounting systems for that other level of government, be it a municipality, a school board or a hospital, and any tie between the two is a matter of a separate statute, not a matter of the Financial Administration Act. Is that correct?

A. BARNARD: That would essentially be correct. For example, in schools the Ministry of Education would be very much involved directly with the school districts in ascertaining their needs, their budget, how they were spending the money. If there was any question about the propriety of some of the transactions taking place, our audit group would probably become involved.

D. SCHRECK: If your audit group became involved with a school district, would that be under the authority of the Financial Administration Act? Is it sufficiently broad?

A. BARNARD: Yes.

I hope that gives a bit of a sense about the comptroller general's office and the things that we do.

THE CHAIR: You are located where?

A. BARNARD: We're located right across the street in the Douglas Building, second floor.

THE CHAIR: You mentioned there's a group in Vancouver.

A. BARNARD: There's a small office in Vancouver which deals with the controls over the GAIN payments run — the Guaranteed Available Income for Need program from Social Services. Actually, the computers, all of the cheque-printing and so on are all done in Vancouver. We have a small office there which is responsible for control over the cheque stock and also the cancelled cheques.

THE CHAIR: Those are payments made directly to the applicants?

A. BARNARD: Yes.

I'd like, if I may then, to spend just a couple of minutes talking about the whole framework that the government operates under, so that you get a sense of how this all ties together. I've given everybody a copy of the Financial Administration Act, because I want to refer to just a few sections in there.

The first one of importance is section 4, which lays out what Treasury Board is: the management committee of cabinet. It lays out the responsibilities that Treasury Board carries. As you can see, the first one is the accounting policies and practices, and the form and content of the public accounts. So it is directly from Treasury Board that we take our instructions with respect to that aspect of our business. You will see that they are also responsible for government management practices, government financial management and control — again, something which is directly attributable to the comptroller general's office — evaluation of government programs as to economy, efficiency and effectiveness, government personnel management and other related matters. Treasury Board is the body clearly designed to have the management level of the government and, as I said before, the comptroller general is a creature of Treasury Board.

THE CHAIR: Are there any other creatures of Treasury Board?

A. BARNARD: Yes, there's Treasury Board staff who do a lot of the resource allocation, the budget-building functions and some control work; and the government personnel services division, of course, who do all of the personnel work on behalf of Treasury Board.

The next section....

B. JONES: Can I back up? I'm just sort of curious. You've been through your staff. Evaluation of government programs as to economy, efficiency and effectiveness is also a function that the auditor general undertakes. I'm wondering how much of your staff would be involved in that kind of thing — actual evaluation rather than the normal accounting procedure.

A. BARNARD: As I mentioned before, we do a lot of internal audits which touch on economy and efficiency and, to a minor degree, effectiveness. We're getting more into effectiveness, and this again goes a little bit back to the history of government accounting, in that really, up until recently, government accounting is concentrated on accounting for all of the inputs to government — tracking the estimates, in terms of how the money was spent, not what was actually achieved out of that spending. That is changing, and more and more we are getting into the concept of measuring outputs and values, where you can measure effectiveness. So although effectiveness is in there, I don't really think we could stand up and say that we've done very much in terms of measuring effectiveness up until now.

[8:45]

B. JONES: Those areas you have: is that at the direction of Treasury Board, or is that an ongoing function of your office?

A. BARNARD: It's an ongoing function. There is a policy requirement that every program in government should be given an internal audit review every five years. Unfortunately, we've never been able to maintain that cycle because of funding constraints and restrictions on staffing and so on. But we do try and get around to take a look at most of the major programs on a fairly consistent basis. As I say, these reports are usually reports to the management of the ministry, because we feel quite strongly that the way to improve government performance is to have the managers buy into the process. That's the way we try and operate. There can be audits directed by Treasury Board for specific purposes if they feel that there's something they wish us to look at, and we have a number of these ongoing right now.

THE CHAIR: Following up on Barry's question, then.... In the normal course of events, this Public Accounts Committee, I believe, quite a bit of time dealing with the auditor general's report and following up questions. Do we get, as a matter of practice, a review of all of the audits you have done? Can we ask for it?

A. BARNARD: You can ask for it, yes. You can ask for the audits that we have done, but we would not release any of the specific audit reports unless a ministry were to agree that we could release them. As I said before, in many cases, our client is the ministry.

THE CHAIR: Yes. Well, in the normal case, they are; when you're responding — because you're the people that respond, aren't you, to a ministry concerned — but they don't go to the auditor general's office?

A. BARNARD: Not as a normal course of events.

B. JONES: But are the audits that you're doing, or have done, public information?

A. BARNARD: We have never made them public information and, I must admit, I have a considerable degree of concern about this. Going back to the philosophy behind our audits, they are a management assist — management requests these audits — and if these things were to become public, I have a feeling that management would be less than anxious to come out and request these audits, knowing that they could be out in a public place. So I feel that we would probably want to try and keep this as a confidential, internal client relationship, unless they agreed to make the findings public.

K. JONES: In other jurisdictions where they have access to information, are these public or are they not?

A. BARNARD: No, they're not, as far as I have been able to ascertain so far. I think we would lose the value of the audits, quite frankly.

THE CHAIR: But you can see all of us sitting here thinking, oh-oh. If we were a senior bureaucrat manager, and we had a concern over something that was going on, I would now come to you to do the work rather than go to the auditor general. Because if it goes to the auditor general, it's out in the public domain; but if it goes to you, it isn't necessarily.

What do you do when you have a set of circumstances which, if they had been discovered by the

auditor general's office, would have been a major issue? I guess if it would lead to criminal prosecution, then that decision is taken anyway.

A. BARNARD: Yes. As a matter of fact, as soon as I finish here, I've got to go up to court on one of those issues. If there is any hint of criminal activity or if anything gives us a sense of discomfort in that area, we would immediately contact the Attorney General's office and work consistently with them all the way through, and usually with the RCMP. They're called in almost immediately on most of the cases we've run into that involve that kind of thing.

D. SCHRECK: Perhaps we could clarify, however, the purpose of these internal audits. My understanding is that they are primarily for purposes of establishing good accounting and control, and that the irregularities involving individuals would be the rare exception. Is that not correct?

A. BARNARD: That's true, yes. They are management-assist audits for the most part.

THE CHAIR: So this responsibility that you have to look at every program within a five-year cycle is really the fourth function of this internal audit group. Is it?

A. BARNARD: Yes. Actually, the policy is that each ministry shall have a review of its programs every five years, and whether or not our particular audit group is involved in that depends to some extent on the ministry. They can either contract it outside or they can have their own. . . .

THE CHAIR: So the ministry makes that decision.

A. BARNARD: Yes.

K. JONES: Following up on that, if the ministry does its own audit or contracts it, does that mean that you have no record of that audit? Or do you get the details of that audit?

A. BARNARD: We almost always get the details of the audit, because we still have the functional control over internal audit across all of government. Even though the ministry could go out and contract its own audit, we would in fact get that report.

K. JONES: Do you substantiate the report? Do you check on who the auditing agency is?

A. BARNARD: Yes. We would at least satisfy ourselves that the people doing the audit were sufficiently qualified, and we would certainly review the audit report and make sure that we felt it covered what was necessary. We have in fact established standards for these internal audits, which is a document that's well known.

J. MacPHAIL: In terms of the accounting of individual ministries, Crown corps and agencies, I gather there's no consistency across ministries for accounting procedures.

A. BARNARD: Well, no, that's not true; I think there is consistency.

J. MacPHAIL: There is. Do you monitor that? Is the consistency based on the application of the FAA?

A. BARNARD: Yes, and with all of the policies and procedures which emanate from it.

J. MacPHAIL: Is part of your function to make sure that that consistency remains, and is that what the educational process is that your department does?

A. BARNARD: Yes.

The next section I'd like to draw your attention to is section 7. It's actually the one I mentioned before where the government is required to appoint a comptroller general. It lays out quite a number of powers that the comptroller general has in section 7(2) and under (a): "shall at all times have access to all ministries and branches of the government and to their records." So there's no restriction in terms of our ability to get in and look at these things. We can require from any public office the information and explanations necessary.

K. JONES: Just for clarification, does that include Crown corporations?

A. BARNARD: If you follow down on to the next one: "may, on the direction of the Treasury Board, require from any officer or employee of a public body, as defined in the Auditor General Act. . . ." That definition is extraordinarily broad, and it actually encompasses anybody who receives — and I think I'm right here, George — a grant from government or whose borrowings are guaranteed by government.

THE CHAIR: You've got a big project on your hands.

A. BARNARD: In essence, we can follow public money. You would run into a few problems trying to get into some organizations, but it is quite broad. The auditor general's office is also very broad.

K. JONES: Again, that's based on the direction of Treasury Board.

A. BARNARD: That's true.

K. JONES: You cannot initiate anything in that area.

A. BARNARD: No. We can certainly influence Treasury Board by making representation and saying that we feel there's a situation that really warrants investigation in a particular organization. I think it's fair to say that it would be somewhat unusual to have Treasury Board tell you not to do anything.

K. JONES: You'd be suspicious.

A. BARNARD: As you can see under section (d) on the following page, we do have the power to put people under oath in terms of some of the investigations. This, of course, was done with Kempf and Reid. It has been done on a couple of other very minor ones, where you put people under oath under the Inquiry Act and you go through a very formal hearing process.

Under section 8 are the duties of the comptroller general. As you can see, they basically cover the whole area of maintaining good financial management across government. Under section 8(2) the act sets out what shall be in the government's financial statements and in the public accounts. That whole reporting requirement is all laid out in the act as well.

The real essence of the government's financial control system starts in section 9, where there is the requirement that there shall be one consolidated revenue fund in government into which all public money shall be paid. All trust funds are kept separately.

N. LORTIE: I have a question on that. There was a suggestion in the House, I think, that moneys that were collected as, say, fines under the Minister of Environment should be kept in a separate fund in order to enhance the environment. Does this preclude that kind of thing happening?

A. BARNARD: No. The account into which the moneys for environmental protection would be paid is part of this consolidated revenue fund. The money must come into this. . . .

N. LORTIE: It's all one big lump. Is there a separate. . . ?

A. BARNARD: There are some separate special accounts established within the fund for particular purposes. When we talk in a few minutes about the public accounts, you can see all the special accounts and how they operate.

J. MacPHAIL: Alan, can you tell me if this act has super-seniority over other acts that may deal with revenue and accounting?

A. BARNARD: Yes, unless the other acts specifically say "notwithstanding the Financial Administration Act."

J. MacPHAIL: And is it fair to say that there are very few acts that exclude the coverage of the FAA?

A. BARNARD: Very few. We fight very hard to make sure that there is no other legislation that says "notwithstanding."

J. MacPHAIL: That would be a flag, if a piece of legislation came through?

A. BARNARD: Certainly to us, yes.

J. MacPHAIL: Secondly, in terms of all these duties, who has the enforcement power?

A. BARNARD: Treasury Board.

J. MacPHAIL: Do they have the right to fine or penalize?

A. BARNARD: There is a provision for fining in the act. There could, of course, always be criminal action. If people did not abide by it, they could be fined.

K. JONES: What examples would you give where the particular legislation would exclude this?

N. LORTIE: Those are the ones we want to look at.

A. BARNARD: I have to think very hard.

Do you know of anything offhand where we've got a "notwithstanding" at the moment?

V. SKAARUP: Isn't there something in the legislation where they're setting up that credit union insurance?

A. BARNARD: I should introduce you. This is Vic Skaarup from the financial management branch.

At the moment, these exceptions are so rare that I can't think of one. We can certainly do a bit of a search and come back and tell you what there is.

THE CHAIR: Yes, I think that would be helpful.

A. BARNARD: We have the ability to go into statutes and do a search for phrases. We could pick out anything which says "notwithstanding the Financial Administration Act." I can't think of any offhand, certainly nothing significant enough to give me any concerns about the control structure.

J. MacPHAIL: Are collective agreements that deal with public moneys in any way affected by the Financial Administration Act? Let's say a collective agreement was in violation of the FAA.

A. BARNARD: I can't really imagine how it could be, but there was no way that a collective agreement could override an act.

THE CHAIR: Alan, could you have that search given to the Clerk, and then he can distribute it to members of the committee?

[9:00]

A. BARNARD: Sure.

Moving on, then, section 11 says that anybody who collects public money must pay it into the consolidated revenue fund.

Section 14, the next important section — particularly in light of what has happened recently — which talks about the write-off of assets and uncollectible debt, actually deals with a write-off, not so much with the making of provision for doubtful collections. This is actually the act of writing the loan out of the government's books completely. The Treasury Board does this with exceptions, in that it's delegated some of its powers. I can write off loans, for example, up to

$50,000 — anything above that has to go to the Treasury Board — and ministries can write off up to $5,000 of each loan.

THE CHAIR: In Bill 19 — the one coming up — there's a proposal to change that slightly, isn't there?

A. BARNARD: This is the extinguishments provision, which is a different issue, not the write-off. The difference between the write-off and an extinguishment. . . .

THE CHAIR: No, there was a bill tabled yesterday, Bill 19: amendments to the Financial Administration Act. I just skimmed it, but it seemed to me there were some changes in this section.

V. SKAARUP: It's to do with extinguishments. The situation right now to extinguish a debt is that it is a fairly lengthy process. It has to be approved by the Lieutenant-Governor-in-Council. In other words, an order-in-council is required, and that makes it very difficult sometimes to realize money. You may have an opportunity to realize 50 cents on the dollar if you extinguish the remainder of the debt, but people in the loans administration branch, for example, can't enter into these extinguishments on a timely enough basis. It's got to go all the way up to cabinet for an order-in-council to be passed. So the purpose of this amendment is to allow for delegation by regulation to people in the bureaucracy, basically within specified limits and under specified conditions, etc. — to enter into extinguishments so we can maximize collections on loans that are in trouble. There have been examples where somebody is about to leave the country and says: "If you give me an extinguishment of 50 cents on the dollar, I'll give you the other 50 cents." Without this amendment we're losing that 50 cents on the dollar.

A. BARNARD: We should point out that there is a difference between a write-off and an extinguishment. A write-off is purely a recognition in the government's books that there is no longer a valid receivable to carry in the books, but the government still has the right to go out and collect from the debtor. An extinguishment, in fact, extinguishes the government's rights to collect at all, and that's why in some cases of restructuring you would want to have an extinguishment.

THE CHAIR: Having made a deal.

F. RANDALL: I just want to ask about repaying loans. What's the procedure? I've got a problem where a person who owes $12,000 phoned me again last night. He wants to pay but he can't, because they won't let him yet. He's concerned about paying interest on the loan. I guess he's made the loan from the bank, and the government's guaranteed it.

A VOICE: A student loan?

F. RANDALL: Yes, a student loan. He's been endeavouring to repay this $12,000, and apparently there are some procedures he has to go through. He says: "Why should I be paying interest at the bank when I've got the money and I want to pay it, and I can't pay it?"

A. BARNARD: If you would like to give me the name and everything else, we can follow that up and find out precisely what the particular situation is.

F. RANDALL: It's been going on for some period of time.

V. SKAARUP: That could be part of the terms of the loan. If it's a student loan, he's got a loan with the bank — and those of you who have mortgages know that if you try to repay your mortgage off, there's a penalty. So it could be just that the terms of the contract the individual has with the bank don't provide for early repayment.

THE CHAIR: Well, the way student loans have been, they should grab the money while it's there.

A. BARNARD: Well, certainly I'd want to look into it, because it seems to me a somewhat unusual circumstance with something like a student loan. But I would be quite happy to take a look.

F. RANDALL: He's talked to me twice about it, and he's having a problem.

B. JONES: This is probably not germane to why we're here, but I think we're all interested in the loan portfolio, and I'm curious about the student loans. While there is a fairly high percentage in default, I imagine that the majority of those people would become able to pay at some point over the long term.

Are there any figures on the collection rate on those student loans? Are those defaults written off and extinguished, and do they end up as a major loss of revenue to the province?

A. BARNARD: At the moment, as you said, these are defaults of bank loans which then, because the government is guaranteeing them, we are obliged to purchase. Out of those, I think we've come to the conclusion that we're likely to lose about 63 percent.

G. FARRELL-COLLINS: Those are the ones that are in default, not in total.

K. JONES: Have you ever considered. . . ?

THE CHAIR: I'm sorry, the remark that Gary made needs to be understood by everybody. The 63 percent is 63 percent of those that you have been required to purchase from the bank, because they are in default.

A. BARNARD: Correct. It would be 63 percent of 20 percent.

THE CHAIR: Okay, 12 percent.

A. BARNARD: I tried to make that clear when I said "of those we are obliged to purchase."

N. LORTIE: It wasn't quite clear enough for me.

B. JONES: What is the process of extinguishing those loans?

THE CHAIR: They don't get extinguished, do they?

A. BARNARD: They would not get extinguished unless there were some particular circumstances and somebody requested an extinguishment — except by process of law, where you have the Limitation Act, which says, I think, seven years with no acknowledgement, etc., etc., and then the loan becomes extinguished. So it's a question of time.

THE CHAIR: Thank you.

A. BARNARD: Okay, section 18 of the Act is very, very, important, and it says that no money shall be paid out of the consolidated revenue fund without an appropriation. This becomes very critical for the comptroller general's role in government, because one of the things we stated earlier was the fact that the comptroller general is responsible for making sure that payments out of the consolidated revenue fund are proper. Of course, the fact that you've got an appropriation and that the moneys being spent are in accordance with the appropriation, and are not in excess of the amounts of the appropriation, becomes the major control feature over government spending.

J. MacPHAIL: Before we lose that thread, is that the section under which the halfback lottery cancellation...? There was a suggestion that there were not proper accounting procedures. Do you know anything about that, or was that separate because it was under the Lottery Corporation?

A. BARNARD: Yes, I do know about that. It is partly this and partly the provision of the Lottery Act which said that all the net proceeds from lotteries are to be paid into the Lottery Fund. In essence, the halfback program was providing something sort of halfway between a grant and a commission for this particular program. There was a considerable amount of discomfort about the program by a number of people, including, obviously, the auditor general. It has now, of course, been corrected.

J. MacPHAIL: It was partly this concern under 18.

A. BARNARD: We agreed that there was a problem, yes.

K. JONES: Rather drastically corrected.

THE CHAIR: This section 18 is the section that requires special warrants.

A. BARNARD: There's a separate section on special warrants, but special warrants would be a form of appropriation.

THE CHAIR: Yes, right. Does the special warrant have to be passed by the order-in-council before the money is spent, or is it passed after the money is spent?

A. BARNARD: Before.

THE CHAIR: Has to be passed before.

J. MacPHAIL: Section 21.

A. BARNARD: Section 20(2) is interesting as well. It says: "No sum appropriated by a Supply Act shall be paid and applied to any purposes other than those described in the estimates of revenue and expenditure...." As I say, that's the section that makes the wording in the estimates book and the vote description very important in terms of the control over the spending of money.

THE CHAIR: So it allows you to switch funds within the vote?

A. BARNARD: Subsection (4) allows that.

THE CHAIR: But not outside the vote.

A. BARNARD: Definitely not outside the vote. Subsection (4) under 20: "The money allocated in a vote may be paid and applied for any activity or standard object of expenditure that is within the general purposes of the vote." So it is the vote wording, the purpose and the intent of that vote, which is the guiding principle.

D. SCHRECK: While not strictly in order, but relevant to understanding this conceptual matter, I suppose.... If you look at something like hospitals and doctors being in separate votes, if one did want to commingle those funds in some way, this provision would stand in the way of that, I take it, unless either the vote structure were changed or there were some other statute.

A. BARNARD: That's true.

THE CHAIR: But are they in separate votes?

D. SCHRECK: Yes, I believe so. Correct me if I'm wrong.

A. BARNARD: Section 21 deals with special warrants, and again they are a form of appropriation and are available only when the House is not sitting, and when spending is urgently and immediately required for the public good.

THE CHAIR: Is this the section that requires the special warrant to come up in the first supply bill?

A. BARNARD: Yes, there is a provision in that — 21(5). We have always taken the next ensuing supply bill to mean the interim supply bill which would come in. So that's why in Supply Act (No. 1), 1992, the schedule of special warrants was included.

The next section that I wanted to very briefly touch on is section 24. Under (1), Treasury Board may, by directive, control or limit expenditure under any appropriation. Now they cannot exceed it, obviously, but they can in fact limit and control expenditures under any appropriation. Occasionally, directives come out of Treasury Board that cut down particular spending, freeze moneys within votes, and all sorts of things like that.

THE CHAIR: That would have been the section that was used when the cutback programs came into play in 1982?

A. BARNARD: Yes. Well, they've been used a number of times. There have been directives that a number of appropriations are cut back by X number of dollars or percent, or particular parcels of money within a vote are frozen. So Treasury Board still holds the reins with respect to spending after an appropriation has been passed by the House.

THE CHAIR: Is the creation of Treasury Board a child of this act?

A. BARNARD: Yes.

THE CHAIR: It's at the start, I presume?

A. BARNARD: That's at section 4.

THE CHAIR: That says what the Treasury Board "shall" do.

A. BARNARD: Doesn't it say that Treasury Board shall act as a committee of the executive council?

THE CHAIR: Does it define Treasury Board?

J. MacPHAIL: Section 3 does.

THE CHAIR: Okay, section 3.

A. BARNARD: In terms of the actual processing of payments and the steps that are required to ensure propriety of the payments, the act, under sections 28.... Actually, the control aspect, section 27, would be the first one. There is a requirement that ministries maintain a record of the commitments they have made against any appropriation. This is just to avoid any overexpending of an appropriation, so that they know where they are.

But in the processing, section 28 requires that there must be a requisition for payments. This is a requisition to the comptroller general to make the payment. There are certain rules around the requisition, and there are certain facts under section 29: performance of a contract, or the goods have been received. All of those things are in place before a requisition is made. It just indicates who may sign a requisition, and the fact that we do have a delegated system and we have formal delegations of what we call spending authority — those people who may initiate an expenditure under an appropriation. A payment authority is those people who attest to the fact that the spending authority is, in fact, correct and has been consistent with the legislation and the policies, and that the payment is a proper one.

So when the payment comes into our office, it is that payment authority attestation that we look for before processing a payment. There is a fairly well-established process to make sure that the necessary authorizations are on any payment before it's made.

[9:15]

K. JONES: This section basically places the responsibility and accountability for all expenditures in the hands of the ministry?

A. BARNARD: Yes, but there is another section....

K. JONES: And section 24 places the responsibility for all expenditures in the hands of the executive, as Treasury Board.

A. BARNARD: The responsibility for financial management in the ministry resides with that ministry. They are required to abide by this. Our job is to make sure that this happens, so that's why the delegation is here for attestation of these things that go through the minister, the deputy and down through to the people within the organization. It's all clearly set out in a matrix.

K. JONES: But going back to the ultimate responsibilities, section 24 places that responsibility for all expenditures in the hands of the executive, as Treasury Board.

A. BARNARD: Yes, in terms of public accountability.

K. JONES: They're ultimately responsible.

A. BARNARD: Yes. I would say yes.

Sections 30 and 31 are really quite important. They establish a degree of independence for the comptroller general's office. In essence it says that if the comptroller general feels that a payment is not proper, the payment can be stopped. In the event that the payment is stopped, we are required to take it to Treasury Board and get a ruling. Treasury Board could talk to the Attorney General and get an opinion. If the comptroller general's opinion is overruled, section 31 requires me to prepare a statement and submit it to the auditor general. If there is any sense of discomfort in our office about a particular payment, we are obliged to bring it to Treasury Board's attention or to stop it and seek a ruling. That is a considerable area of authority, I suspect.

THE CHAIR: Does it ever happen?

A. BARNARD: Certainly in my time we have never got to the stage of being overruled by Treasury Board. We have had payments come into the system that we have rejected. We've gone back to the ministries concerned and said, "Do you really want to do this? Because if you do, we're going to have to take it to

Treasury Board," and they've backed off. There's a control in the system which works reasonably well.

It's exercised to some degree because of the functional responsibility that our office has across all of government. The financial people in government are sensitive to this as well. If they see something coming through their ministry that they do not feel comfortable with, they will let us know immediately, so we can usually head it off before it ever gets to be a contentious issue.

The last section. . . .

J. MacPHAIL: Before you leave 28, 29, 30 and 31, we refer to privatization as the selling-off of public assets. How does that come about under the FAA, or is there separate legislation that covers it?

A. BARNARD: Actually, the sale of public assets is the responsibility of the Purchasing Commission. Their statute gives them the mandate for that. Our involvement there would be to make sure that any proceeds are paid into the consolidated revenue fund. Secondly, the general, overriding concern is to make sure that the values received are reasonable.

F. RANDALL: Do you check the values to make sure that they are reasonable? Who does that?

A. BARNARD: In as far as we are able, we would check the process that established the values rather than question the values themselves. Values of things are often not easily determined, sometimes because of their unique nature and sometimes because there's no market. Because of our particular accounting practices, we do not maintain a book value on a lot of the assets that are sold. Sometimes establishing fair value is not an exact science; it tends to be a bit of an art. We would be more inclined to look at what a ministry or the Purchasing Commission does by way of their process of establishing a fair price, and that would be. . . .

F. RANDALL: Not whether it was fair or not.

A. BARNARD: As I say, that's in the eye of the beholder, to a large extent.

G. FARRELL-COLLINS: What you would be looking for would be whether it was put to auction as opposed to just selling it to someone's brother-in-law.

F. RANDALL: I know some cases. In fact, I reported one case to a minister where land was sold for $2.2 million, flipped the same day for $10 million more and has since been sold for $23 million. I had all the material on that. I submitted it and never heard any more.

D. SCHRECK: When did this occur, Fred?

J. MacPHAIL: That was the New Westminster lands, wasn't it?

F. RANDALL: Yes.

J. MacPHAIL: A couple of years ago.

D. SCHRECK: The reason I ask the question is to see whether it comes within our mandate for reviewing the last fiscal year.

F. RANDALL: I just know. . . . There's another one I can tell you about.

THE CHAIR: Hang on a second, if I may. We do have some deadlines, and I don't think we should go into a series of specifics at this moment.

F. RANDALL: I just have some concerns about what's happening with real estate. I know other cases where land has been sold for a couple of million dollars and then appraised at $14 million. I've got a lot of concern about that. I'm interested in how all that comes about. It doesn't go out to tender.

THE CHAIR: Can we deal with that another time?

A. BARNARD: It's a good point, though. When I talked about the Purchasing Commission. . . . I'm glad you raised the question, because it allows me to clarify one other thing. Land sales actually take place out of Environment, Lands and Parks and the Crown land account, which is responsible for pretty well all of the Crown land, except for some small portions which the Ministry of Transportation and Highways is responsible for. I was thinking of asset sales in terms of something other than land when you asked the question. So I'm glad you asked about land, because it is a separate way of handling assets. We can get into the other stuff later.

THE CHAIR: I think that it's an interesting subject. We should get an understanding here of how the process works. I'd like to add to it, too, the way in which you do or don't keep track of all of the tangible assets the province owns, because of the way we keep our accounts.

A. BARNARD: We'll get into that.

THE CHAIR: So we could get into both of those at some later date.

A. BARNARD: Just before I leave the financial control framework section, section 34 of the act allows us to set off against payments the government is making to a particular person any amount that that person may owe to the government. This is a section that we use quite frequently, and there is a branch of the OCG which deals with setoffs. We've collected somewhere around $7 million or $8 million a year in setoffs of moneys owed to government. It's quite an interesting little exercise at times. That very quickly covers the financial framework and the control structure that is around government's finances.

Now I'd like to spend a few moments talking about the public accounts which have been tabled with you for your interest. I mentioned earlier that government accounting has been very much involved in looking at inputs to government programs and not in measuring outputs. Our emphasis has always been to produce the public accounts, which speak directly to the estimates,

and they will report actual spending in the same structure that the estimates are put together.

It was only in 1981, when the Financial Administration Act came in, that we actually moved away from the old cash basis of accounting — where only when cash was received was it recorded and only when cash went out of the door was it recorded — to what we're currently on, which is a modified accrual basis. When we actually receive goods and services we record that as an expense, and when we provide goods and services we record that as revenue. The modification in our accrual accounting comes with recognition of taxation revenues where it's very difficult to get a clear understanding of how much money is in fact due to us. We treat those on a cash basis still.

So the public accounts are produced in two books. If you want to take hold of the one called *Financial Statements and Schedules of the Funds Comprising the Consolidated Revenue Fund* first, we can just step through it very quickly, and I will give you an indication of what is in there. I'm not going to spend any time actually going through it in any detail, but I think it would be useful for you to have an understanding of what is there.

The introduction — which is the same in both books, by the way — gives you an overview of how the public accounts are put together and what is included. There's a little box on the first page which talks about the entities that we're reporting on in the various financial statements. It goes on in the next few pages to talk about the government's accounting policies. I think the significant thing to mention in these accounting policies is the treatment of physical assets in government. Unless the assets are held for resale — and this particularly applies to land — we write everything off. So all of the assets that are purchased for government use are written off when they're required.

D. SCHRECK: That would include a highway.

A. BARNARD: Yes — everything.

THE CHAIR: Alan, you said "unless something is held for resale." If it was not purchased for resale originally, do you set it up as an asset if a decision is made to sell it. . . ?

A. BARNARD: No. It is only those moneys which we've actually laid out in terms of acquiring the asset for resale which would be booked.

THE CHAIR: Okay.

A. BARNARD: So as you step through the. . . .

D. SCHRECK: Could we go back? In terms of consistency of public accounting across the country, is that done in all provinces? My understanding is that it's not.

A. BARNARD: It's a bit spotty, and it's very much in transition. Most jurisdictions do write off physical assets at the current time. I think New Brunswick books their heavy-equipment assets. We tend to do a bit of it through the Crown corporation structure in that all the buildings are held in BCBC. So in BCBC's books they are set up as an asset. But when we consolidate BCBC into our summary consolidated financial statement, we write them off again.

THE CHAIR: I think there will be a major discussion at some later point, where I hope we'll compare the accounting processes in British Columbia with all of the other provinces. That will be an important question to deal with then.

A. BARNARD: Yes.

The first set of financial statements is the general fund, and these statements speak directly to the estimates. The general fund, which is the operating fund of government and excludes the two special funds — which also form part of the consolidated revenue fund — speaks directly to those things that are laid out in the estimates. You will find the financial statements, then a whole series of schedules which provide all sorts of additional information about those statements under the notes.

[9:30]

The next set of financial statements are the privatization benefits fund statements. The audit report is on page C3, and the actual statement starts on page C5.

Actually, I should just back up a minute and say that this particular set of financial statements — for the first time in B.C.'s history — has a reservation of opinion by the auditor on them, on the basis that we did not book the unfunded pension liability as a direct liability.

The next set of statements is the budget stabilization fund, starting on page D3. Section E contains a whole series of additional information which is provided by way of backup or, if you will, more detail into the figures than would appear in the financial statements themselves. Under the section dealing with ministerial appropriations, you will see each one of the ministry expenditures. And you will see — if you compare that section to the estimates — a direct relationship all the way down in terms of all of the subvote structures and the reporting under those.

THE CHAIR: So under health, these four categories are not of the four votes, are they — on page E5, the general fund schedule of expenditure by function, these are not each a separate vote?

A. BARNARD: No, this would be grouping a number of votes together — expenditures for a particular functional purpose. The whole structure of expenses by vote starts on. . . . For example, the Ministry of Health is E44, and you will see the breakdown on page E44. They start off with vote 38, the minister's vote, and vote 39, and the subvotes break down from there. There's an indication of any budget reallocations, of any other authorizations and of total appropriations on the one page, and then how the moneys were spent going across the opposite page.

I'll also draw your attention to pages E72 and E73, which talk about the summary of the special accounts. This was something that was mentioned a bit earlier in

terms of special accounts within various ministries. It gives you a breakdown of the operations of the special accounts, so you can see what moneys flowed through those.

I'll try and make it fairly quick now. Starting on page E77 is a section which shows all of the detailed descriptions of the appropriations — taken directly from the estimates book and carried forward in here so that people have that information right there.

Page E115, which we consider to be quite an important schedule, shows all of the statutory appropriations which exist. Some of them have expenditures against them in this fiscal year and some of them do not, but they're all reported there.

THE CHAIR: When you use the heading "Amounts Accessed," that's the amount that was spent?

A. BARNARD: That's right.

Section F deals with the payments to members of the House, to ministers, to deputy ministers and to order-in-council employees, and that includes salary and travel expenses.

N. LORTIE: Order-in-council employees are. . . ?

A. BARNARD: Usually assistant deputy ministers, people in some sort of politically sensitive positions, and some of the ministers' office staff — clerical positions — are order-in-council appointments.

B. JONES: Government communications?

A. BARNARD: Most of them are, yes.

THE CHAIR: This does not include Crown corps?

A. BARNARD: No.

THE CHAIR: It includes everybody who is in the consolidated accounts?

A. BARNARD: Yes.

B. JONES: What about payment of severances? Would they come under here?

A. BARNARD: No, not normally.

V. SKAARUP: Not reported against an individual?

A. BARNARD: No.

B. JONES: You mean you have no public reporting of the severances against individuals?

A. BARNARD: I believe there is a requirement that GPSD table this, but I don't think it's a requirement that they table it in the sense of dollars, but in number of months of salary. I would have to check on it, if you wish me to follow up on it.

B. JONES: Yes, please.

A. BARNARD: Could you make a note of that please? That's GPSD. . . .

THE CHAIR: Moving right along, because we have the auditor general. . . .

A. BARNARD: Moving right along, the next section of this volume deals with the salaries and expenses of all employees who make greater than $35,000 a year out of government. This is one of the sections that we feel is virtually redundant. We would like to change this section. We would like to indicate the salary schedules of each one of the grades of employee and leave it at that, rather than go through this business of printing individual amounts, because they all fit within well-defined bands of remuneration in any event. We will be coming forward at some time with a request for you to consider making a recommendation to this effect, or at least getting your viewpoint, before we take it to Treasury Board.

J. MacPHAIL: I would assume most of these employees are covered by a collective agreement.

A. BARNARD: Yes, quite a number of them, but there are also the management groups, and that would be under the terms and conditions. . . .

F. RANDALL: The IRC groups are all in here.

J. MacPHAIL: Lots of them; most of them.

V. SKAARUP: But they fall under the Public Service Act.

B. JONES: Would that bury their travel expenses if that was done?

A. BARNARD: Yes.

B. JONES: I think that's probably a mistake.

J. MacPHAIL: That what?

B. JONES: That they would bury their travel expenses too.

A. BARNARD: Again, it's a question that. . . . The travel expenses are very stringently controlled. There are some very clearly established parameters as to what you can and cannot charge, and the only thing that could possibly be of interest is the extent of the travel. But again, the deputy minister is responsible for making sure that it's all proper, that there's no. . . .

F. RANDALL: What's the rationale for wanting to eliminate it?

A. BARNARD: Partly the fact that it costs a lot of money to produce it, and the other part of it, which I find rather interesting, is that Ontario doesn't do it anymore because of their privacy legislation. They feel it is infringing upon an individual's privacy to actually report specific amounts like this.

F. RANDALL: I have real problems with that.

J. MacPHAIL: He's not talking about the order-in-council appointments, Fred. He's not talking about that section; he's talking about the next section.

A. BARNARD: No, it's just talking about regular employees.

F. RANDALL: Yes, but all the municipalities publish this same thing for everybody — what they paid out.

A. BARNARD: If we were to eliminate it here, we would probably eliminate it from the Financial Information Act as well.

D. SCHRECK: The municipalities do it because of the provincial statute.

THE CHAIR: Okay, we should move on.

N. LORTIE: Excuse me. Does this committee make that decision, or do you go to Treasury Board?

A. BARNARD: No. Treasury Board would make that decision, but before ever taking a recommendation to Treasury Board, we would want to get your views on it.

The next section deals with all of the grant payments that are made to any single recipient receiving more than $10,000, and that is broken down by the ministry making the grant. That's a fairly hefty section. And again, there's a question as to whether the limit of $10,000 is too low. Other jurisdictions have a limit that is considerably higher.

The final section in this book deals with the supply of payments — again, in excess of $10,000 — in any fiscal year to any one supplier.

The second book, which I will just very quickly talk about, is the consolidated financial statements that roll in the Crown corporations that we consolidate. On page B20 you will find a list of the organizations that are included in these financial statements. On page D3 you will find a summary, if you will, of the organizations that are part of the consolidated entity — breaking down their assets, liabilities and equity and their revenue, expenditure and net income or losses for the year, just in one quick schedule. The rest of section D is the actual financial statements of each one of those organizations. Section E deals with the trust funds for which government is responsible and the financial statements for each one of the trust funds.

The final section that I'd just like to draw your attention to is right at the back of that volume. It is the summary of audited financial statements of public bodies reporting under the financial information act. We've done a very quick pickup of assets, liabilities, equity, revenue, expenditure and surplus for colleges, universities and institutes, school districts, hospital societies and municipalities, and just a few other public bodies. In that series of pages you get a quick overview of the whole of the public sector.

F. RANDALL: Is there a part anywhere that shows the pension plan and where it's invested?

A. BARNARD: The financial statements on the trust accounts are the thing there. I don't know whether it goes into too much detail on the actual whereabouts of the investments, but it talks about the classes of investments.

F. RANDALL: Is there a statement of that in the other book?

A. BARNARD: Yes. It's in section E of this other volume. It's got all of those pension funds, because they're part of the trust accounts.

The only other thing I wanted to draw your attention to was the *Public Accounts Digest*, which I believe was tabled yesterday. It's our attempt to try and produce something that speaks to those people who are not accountants and are not involved in this too deeply. We tried to use a lot of visuals in terms of comparative spending over time and things of that nature. We tried to get all of this stuff onto a common denominator to remove inflation and growth — that sort of thing.

J. MacPHAIL: I had a chance to review mine, Alan, and I just want to say it's excellent. For those of us who even consider ourselves somewhat informed, it's just an excellent document. I see it's the sixth. Is that right? It's been published for the sixth year?

A. BARNARD: Yes.

J. MacPHAIL: Does it go into our school system or anything like that?

A. BARNARD: I don't think we put it in the schools.

V. SKAARUP: Some libaries that are on the standard mailing-list are getting it, but I don't think it goes into the schools in any volume unless they go and buy them from Crown Publications.

J. MacPHAIL: It's just so well done that I think it has a purpose beyond this committee.

THE CHAIR: We will have copies sent to all the members of the committee, because I haven't seen it.

J. MacPHAIL: It's in your mail. It was just tabled.

D. SCHRECK: You are just bragging about being on top of everything.

THE CHAIR: It is 9:45, and I'm going to be really embarrassed if the auditor general's staff don't get on this morning.

[9:45]

A. BARNARD: Just as a wrap-up, I'd like to say a couple of words about the relationship between our office and the auditor general, which should provide a good lead in. I believe that both our offices have exactly the same real mandate in life, and that's to make sure that government's financial management is good, its accountability is good, and that everything that can be

done is done in terms of making sure that everything is run efficiently and effectively. With that, unless there are no more questions, thank you.

G. MORFITT: It's very nice to have a chance to meet with the Public Accounts Committee. I haven't had that chance for two years now, so it's a treat.

THE CHAIR: Then we kept you waiting for an hour.

G. MORFITT: It's a treat to see the committee meet. As Alan mentioned, one of the strong purposes that I have is to facilitate the work of the Public Accounts Committee, and to act in the role of adviser and, in some respects, as a researcher for the committee. So I want to emphasize: please look upon my office as a resource over the coming meetings. The committee doesn't have much in the way of research resources and other types of accesses to information, and if my office can facilitate that, I would certainly be willing to do so.

J. MacPHAIL: Where are you?

G. MORFITT: You can find us at 8 Bastion Square. The difficulty is that you can't get in the door, because, as you know, they are digging up Bastion Square. All the cement is being taken out, and they boarded up the front door yesterday. I'm here today because I told my staff that if they boarded up the back door, we were really stuck in there for some time.

I brought with me this morning Bob Hayward, who is the deputy auditor general, the kindly-looking, grey-haired fellow in the corner with the crooked smile but straight teeth; and Gordon Dawson, who heads the division of our office that had a major role in the green report that you'll be addressing in the next few meetings. I had these two gentlemen come along to listen in this morning, and you'll be speaking with them over the next few weeks, I'm sure.

My office sits at 8 Bastion Square. It's an historic building on the corner of Wharf and Bastion Square. It houses my office and the office of the ombudsman, or ombudsperson, or whatever nomenclature is going to be utilized in the next little while for that office.

J. MacPHAIL: Ombud.

G. MORFITT: Ombud. The ombudsman and I are the two officers of the Legislature, other than the Clerks of the House. We're the two people who are appointed by the Legislature itself to act on behalf of the Legislature, and hence my reference to the importance of my linkage with this committee. This committee acts as the voice of the Legislature to my office, and vice versa, so it's most important that we have a good working relationship.

Rather than have another talking head for a little while, I've brought an eight-minute video which gives what I hope is a very good and succinct background to my office. I don't think anybody has seen it, unless Barry Jones has seen it — I'm not sure.... I'll show this, then I'd like to just expand on it briefly, and then I'll be pleased to answer any questions you might have.

[Video showing.]

G. MORFITT: There are a few general messages I wanted to bring out of that. Firstly, government, to me and to my office, is all of government. It is inclusive of all of the Crown corporations and agencies that are owned and controlled by and accountable to central government. So when somebody uses the word "government" to me, it includes consolidated government. Approximately 50 percent — just under 50 percent — of the workings of government occurs outside the ministries. It's included in all of the work of the various Crown corporations and agencies.

It's very important, I feel, that the accountability requirements of all of government are similar, and that includes my job as auditor. I feel that my audit regime and program should be fairly balanced over the whole of government and not just concentrated on the ministry side. I put very high stock on the set of consolidated financial statements that are included in the public accounts — the set of financial statements that includes the Crown corporations and agencies. I feel that is the true financial statement of the province of British Columbia and the government of the province. The others are fund statements, and they are useful and valuable in their own way. We can talk to those as time goes on. But the one set of statements gives you the full picture.

The second point I want to make is that the work I do is in those three parts that you saw on the film. The first is attestation to the financial statements which you've seen over your lifetime as members of the public, private industry and so on — the audit opinions attached to the financial statements of the government and each of the entities within government. Alan spoke to the various financial statements included in the public accounts, and there is a myriad of them. That's a very important aspect, because it gives you the basic assurance that the financial statements in there are generally fair and accurate. Without that basis you really have nothing to grab hold of.

The second aspect we look at is compliance. The debits and credits might be properly recorded, but are they legal, and are the transactions conducted in accordance with legislation? As you will note in looking at my reports over time, there are occasions when some transactions occur outside the ambit of the legislative material available.

[10:00]

The third aspect is value for money. This area of auditing — or performance auditing as it's called in some other jurisdictions — is gaining more momentum all the time. Again, as Alan Barnard has mentioned, it's all very well to talk about the debits and credits being in the right place and whether the transactions are in accordance with law. But has money been economically and efficiently spent? How effective are the outputs and outcomes of these programs?

Effectiveness is not part of my current mandate. We can also discuss that point. When my act was passed in 1976, no auditors general had the right or were requested by their legislatures to look into the effectiveness of programs. That was felt to be a policy

matter which was outside the ambit of auditors, accountants and so on. More and more that view is being challenged, because it's all very well to talk about economy and efficiency, but at the same time you really want to know whether the outputs and outcomes are what you're desirous of obtaining. More accountants and internal and external auditors are getting into program evaluation matters and all those things.

There are three types of audit, all for the purpose of providing the public, the government and the Legislature with assurance as to the accuracy of the financial information, to improve the management of government and the accountability of government to the public.

It was mentioned that I have 90 staff, which is so. That number has remained constant for just over a decade. Approximately one-third of them are students in accounts — mainly CA students and some CGA students. Approximately 45 are professionals of various stripes — mainly accountants, but we have others who are involved in the value-for-money side, such as architects, engineers, lawyers and so on. The technical staff makes up the difference.

All of that group provides information to the Legislature through my reports, the main one being the annual report issued once a year, but also some special reports from time to time. While those are very important reports and are the ones that you'll be dealing with, for every word printed in those reports there are a hundred words given to the ministries and entities that we audit, giving them suggestions as to how to improve what they're doing and on how they're managing their operations. Those are mainly called management reports or management letters, and they are issued to each of the entities we audit, as I say, giving them a myriad of suggestions for improvement in their operations. That's a very important aspect of what we do.

The report that has been provided to your committee so far this session — this one in the green cover — is really a partial report, in effect; it's not the annual report. It occurred for the first time this year and is a new publication.

As I mentioned, over the past years the auditor general's office has issued, and still does issue, an annual report as required by the Auditor General Act. It's issued in the early part of the session so that this committee can deal with all the subject matter within it. This last year, the public accounts of the government were not tabled in the House first; they were issued when the House was not sitting, back in December. My office felt that it would be most untimely for me to wait until this time of the year to have any comments issued on these public accounts. I issued what is, in effect, a special report dealing strictly with the public accounts, and that is what this green book is. It is normally part 1 of the annual report that I issue. This year it stands on its own. In a few weeks I will be issuing the balance, you might call it, of my annual report, which deals with all of the value-for-money work and all of the compliance work that we've been doing over the past 12 months. That will be tabled in the House and presumably will also come to this committee and. . . .

THE CHAIR: When do you think that might happen?

G. MORFITT: Current thinking is that it will likely be the second week of May, the way things sit at the moment. The reason it was not tabled any earlier is that there were two value-for-money audits that are just in the final throes of being completed within two of the ministries, and we want to include those in the report.

THE CHAIR: That report covers what period, then?

G. MORFITT: It covers the last 12 months since the tabling of the last annual report, so it's all of the work in the compliance, value-for-money and special project areas that has occurred from last March to this March.

D. SCHRECK: In the value-for-money audits on the outcome measurement, do you accept whatever the ministry defines as its outcome measurement?

G. MORFITT: Well, what I'd like to suggest is. . . . I'm happy to answer a whole variety of questions on value-for-money auditing, because I think that you should also get a very good and sound feel for what it is, what it attempts to do, how we go about it and what we get out of it. It's an area that I think you should spend a little time with our office hearing about, and this is one of the questions that would be answered. My suggestion, if I may, is that we would give you a primer on value-for-money auditing at the stage of dealing with report items on value-for-money auditing, if that would be all right. I think you will have a variety of questions to ask on that whole area.

So what the committee has at the moment, just to reiterate, is comment from my office on the public accounts, which Alan Barnard has explained. You do not have at this point in time all of the work of my office dealing with the other two aspects: compliance and value for money.

Last year's report has never been reviewed by the Public Accounts Committee of the Legislative Assembly, because the Public Accounts Committee did not meet last year to review it. That report has not been referred to this committee, and whether or not it does get referred I will leave to the Legislative Assembly to decide.

THE CHAIR: Are you saying that report was referred to the last committee, and therefore it's not automatically referred to this one?

G. MORFITT: Maybe the Clerk could remind me. I don't think it was ever referred, was it?

C. JAMES: Well, the auditor general's reports, with the exception of this one. . . . As I understand it, George, this was provided under a different section of your act, under special reports. This particular document required a motion referring it to the committee. Typically, the red report that George is referring to and the

subsequent one which he's mentioned may be tabled in early May. Once tabled, it is deemed to be automatically referred to the committee. The red report was tabled and was in front of the previous committee, but the last committee met for purposes of organization only at the end of June last year and did not meet again. The House was dissolved and that was. . . .

THE CHAIR: Did the tabling of that red report die when the committee died on dissolution?

C. JAMES: Yes.

THE CHAIR: So we don't have the right to go into that?

C. JAMES: No.

THE CHAIR: But in the normal course of events, Mr. Morfitt, outstanding items of significance in that report that haven't been dealt with to your satisfaction will be repeated in this year's report?

G. MORFITT: Quite so. So there will be a linkage. . . .

THE CHAIR: So we'll be able to focus on this year's report and cover 90 percent of. . . .

G. MORFITT: I think that's fair to say.

THE CHAIR: I'm sure if there's anything else, we'll find some way of getting to it.

J. MacPHAIL: You came into existence in 1976. What was the method of accountability prior to that, or was there any?

G. MORFITT: Yes. For the 60 years prior to 1976, there was no auditor general office. I always like to mention that there was an office of the auditor general from 1913 to 1917, I think it was, but the auditor general at the time was the brother-in-law of the Premier.

THE CHAIR: But of course.

G. MORFITT: And that worked quite well. . . .

J. MacPHAIL: I'm not his stooge for telling this story; I want you to know that.

G. MORFITT: That worked quite well as long as the Premier was the Premier, but the Premier lost office in 1917, and the new Premier wasn't too enamoured with having the brother-in-law of the previous Premier as his auditor general. He didn't know quite what to do about it, because the auditor general hadn't done anything particularly untoward, so he dissolved the office entirely and got rid of him in that way.

In any case, for 60 years there was no auditor general, and therefore no external audit as such. The comptroller general — the accountant of the government — acted as the accountant and quasi-auditor, you might say, of the government to that stage. B.C. was not the only province by any means in this situation, and it was in the seventies that the legislatures around the country felt that they had to attend to this problem of getting an independent audit. Ontario and some of the other major provinces had had auditors general for some time or provincial auditors; several, such as our province, did not.

So in the mid-seventies, as part of the election campaign and because of feelings in various legislatures — including ours — there was an all-party agreement that the time had come to set up an independent audit office. All of the parties of the House at that time certainly supported the idea. The act was brought in in 1976, and the office was established and operating by 1977. All of the quasi-audit work that was being done by the comptroller general at that time was moved over to the office of the auditor general. B.C. Hydro and other Crown corporations that were earning their own funds independent of the central government remained with private-sector audit firms — and still do to this day. My office audits all of the ministries and offices of central government and approximately one-half of the Crown corporations and agencies outside of central government. As I say, that's the situation that remains today.

J. MacPHAIL: Do you have any restrictions on access to information?

G. MORFITT: No. I very broad access to information. I don't go on fishing trips for the sake of doing that, because the resources aren't available. In any case, it's not the proper way to spend resources. I have clear access to any of these entities and their operations, should I feel it's appropriate.

J. MacPHAIL: Do you come to the Legislative Assembly if you want to expand your staffing or jurisdiction?

G. MORFITT: At the moment my budget is handled in the same manner as all the other budgets across government — that is, it goes through the Treasury Board process and is put into the estimates.

[10:15]

THE CHAIR: I have David and Ken on the speakers' list. It is a quarter past ten. Getting finished on schedule is important to many of us. I know we're going to have lots and lots of meetings. David, by all means carry on, but I'd like to wind the meeting up.

D. SCHRECK: Very briefly, then. With the Public Accounts Committee not having met over the last two years — it's our intention to have it meet regularly — do you see an opportunity, in this interaction between the committee and the auditor general, to reach a greater understanding in the public domain that could not have been accomplished in the absence of the Public Accounts Committee meeting regularly?

G. MORFITT: I definitely think there is a great opportunity — which was completely untapped in this jurisdiction — for the Public Accounts Committee to meet and provide a useful and helpful service. It can

review matters that I've brought forward, or that have come out of matters that I've brought forward, in as dispassionate and non-political a manner as possible.

The tendency has been for this committee to be very heavily politicized. You can't get rid of the politicization of any committee in government, but there are committees across the country that do work quite well. They do very good investigatory work in certain areas of how governments run their affairs on a day-to-day basis, and they try to make improvements. This committee can go a long way in that regard.

Craig James, the Clerk of Committees, is very up-to-date on the workings of public accounts committees across the country. We've talked to all of them, and we know which ones work and which ones don't. We know what they've done in visiting sites, reviewing material, asking questions and inviting people to their meetings to talk about how they do business. Craig can speak to this over the next meeting or two.

Maybe I could leave this point on this basis. One of the difficulties I've noted in the last two or three years is that the Public Accounts Committee hasn't come to grips at the front end of the session with how they are going to conduct themselves — that is, how is the committee going to do business. If that could be sorted out at the front end, it would save a lot of discussion and wondering, as you go through the mettings over the session. I would recommend that that take place.

K. JONES: Will we have the auditor general with us at our next meeting?

THE CHAIR: I think he comes to every meeting, doesn't he?

G. MORFITT: Yes, we will be here.

K. JONES: So we will be able to carry on with this type of questioning at the next meeting.

THE CHAIR: Yes.

K. JONES: I'll carry the matter until the next meeting, then.

THE CHAIR: May I have a motion to adjourn?

J. MacPHAIL: Before we do that, I have to say that there's some discomfort with the meeting time among our committee members. We may have to revisit this.

THE CHAIR: Okay, everything is revisitable. We need to have a time that makes everybody comfortable.

D. SCHRECK: Some of our members have to make child care arrangements.

THE CHAIR: Yes, I understand that.

B. JONES: We did decide on a meeting time at the last meeting. Wednesday is committee day. This is an important committee of the Legislature. Last time this committee functioned, we met ten times. We started early — 8:30 — but that was to accommodate cabinet members who met that day. I see no reason why we can't stick to the agreement we made last time, which was to start at 9 o'clock and go to something like 11. It seemed suitable to all members at that point.

THE CHAIR: My problem was that I hadn't got it fixed into my head that the scheduled caucus meeting starts at ten. I should have realized it before we got to this point, but I have to deal with that, too.

D. SCHRECK: So by agreement, could we move this back to 9 a.m. to 11 a.m., as we originally agreed?

G. FARRELL-COLLINS: Well, Fred just said that our caucus meets at 10 o'clock on Wednesdays, and that makes it very impractical.

F. GINGELL: I have got our caucus to move back to 10:15. That was what. .

A VOICE: You're late.

F. GINGELL: Yes, I'm going to be late now.

B. JONES: Well, we've already met this year roughly a quarter of the time that we spent the year previously, where we met ten times. The average length of meetings was an hour and 15 minutes. If we start at nine and go until 10:15 or 10:30, I think that would accommodate everybody.

THE CHAIR: The reason that I had originally, Barry, was that I felt that a one-hour meeting was a little short. Now you have sat on the committee. What are your thoughts about a one-hour meeting?

B. JONES: I think it is short, and every meeting is going to be short. We've just had a two-hour meeting, and I think there's more we want to talk to George about. It's always going to be short. I think if we're agreed to make this committee work; and meet on a regular basis and have a reasonable amount of time; we'll never accomplish all we want to within the time-frame that we have.

K. JONES: How about 8:30? It seems more reasonable.

N. LORTIE: I'm wondering why this caucus meeting seems to be inflexible.

F. GINGELL: Well, it wasn't. I got them to agree to delay from 10 o'clock to 10:15.

N. LORTIE: I know, but 15 minutes doesn't really do very much for the problems of some of us getting to the meeting. We meet at one or 1:30 until 2 o'clock. The House sits at two, so you have somewhere between 11 and two to have that caucus meeting. I'm sure you're not meeting from ten until two.

K. JONES: This isn't a daily caucus meeting. This is a weekly one.

F. GINGELL: Anyway, I understand what you're saying.

D. SCHRECK: It would be better if we could reach some mutual agreement on this than to do it by majority vote.

F. GINGELL: Absolutely. I'm sure we'll be able to work something out. Your particular question, Joy, when we discussed it before, 8:30 was okay, wasn't it?

J. MacPHAIL: Well, I don't want to be the sore point here, but the earliest I can get here and look after my kid is 8:45. Otherwise I have to invoke extra staffing at the child care centre, etc., so 8:45 is the earliest.

F. GINGELL: I'll talk to you later, Joy. I'll try to get something sorted out.

B. JONES: I'd rather sort it out now.

F. GINGELL: Oh, would you? I wouldn't. I'd rather sort it out later. I've got other people to go and talk to.

B. JONES: Can we meet at 9 o'clock next time, and we'll sort it out at the next meeting? I think the way to sort it out is when everybody's here.

THE CHAIR: I wanted to come forward with a proposal that everybody would find acceptable. That's the object of the exercise.

N. LORTIE: Let's just set a time for the next meeting of this next Wednesday. I noticed that there were many people late at 8:45, including myself.

G. FARRELL-COLLINS: At 8:15 or 8:45?

N. LORTIE: At 8:15.

THE CHAIR: Okay, let's meet next Wednesday morning then at 9 o'clock, and we'll go to 10:15.

N. LORTIE: And we'll discuss the hour.

THE CHAIR: I'm not going to spend all the meetings discussing what time we meet, though.

J. MacPHAIL: That was George's point probably. We have to get our act together quickly.

The committee adjourned at 10:22 a.m.

WEDNESDAY, APRIL 15, 1992

The committee met at 9:00 a.m.

THE CHAIR: I'll bring the Public Accounts Committee meeting to order. The first item is to approve the agenda, which is in front of you.

A VOICE: So moved.

Motion approved.

THE CHAIR: The next item on the agenda is the record retention and disposal applications briefing for approval. I welcome John Bovey. Please bring yourselves up to the table, if that will make it more convenient.

J. BOVEY: I'd like to introduce two members of the staff of the B.C. archives and records service involved with preparing submissions for this committee: Mr. Walter Meyer zu Erpen and Mr. Michael Lauzon. We're all available, as well as other members of the staff, to answer any questions that you probably will have in considering the submissions being made to you today by the Public Documents Committee.

I am, by statute, the chairman ex officio of the Public Documents Committee, established under the authority of the Document Disposal Act. We have copies, with amendments, of the Document Disposal Act for all members of this committee. I presume you would like these distributed.

The procedures for the approval of government records in British Columbia are covered by this act. Ministries make submissions to the Public Documents Committee, which is composed of five persons: the provincial archivist, the comptroller general and three other persons appointed by order-in-council. The members include a lawyer from the ministry of Attorney General, a nominee of the auditor general and one other person — recently taken from the electronic-systems world. The committee receives submissions, reviews them, makes changes and rejects material, and when it has reached a unanimous opinion, it makes submissions to this committee. The Public Accounts Committee then passes a report and claims a resolution of the Legislative Assembly. Then the disposal authorities come into effect.

The procedures are somewhat complicated. We have a large backlog of submissions to make this year, because the Public Accounts Committee did not report to the Legislative Assembly in 1991. No resolution was passed, so the four binders I am bringing here today cover everything approved since the autumn of 1990. On an occasion like this, I table the submissions, requests and recommendations of the committee. The Public Accounts Committee has usually taken three to four weeks to examine them. They have been placed in a committee room. The Clerk of Committees has arranged that. Members have an opportunity to examine the submissions, and then the Public Accounts Committee makes its report to the assembly. The resolution gives authority to the ongoing authorities.

Today we have three categories of material in our submissions. We have operational records. There are ongoing schedules for approving material as it reaches a certain time period — whether it be six months, a year, five, ten or twenty years or is scheduled for permanent retention. The schedule is ongoing. It has been since amendments in 1984. Previous to that, the ministries had to submit every year. For example, you would submit 1985 in 1992 if you were on an ongoing seven-year schedule. There could be another one in '93 to cover '86.

The assembly approved amendments that allow ongoing record schedules, which you will see particularly for the division of vital statistics and the office of the comptroller general. Operational records classification systems cover all the records of those branches or offices of ministries and continue in effect until amended, which saves coming back every year for approvals.

THE CHAIR: John, does that mean that if certain documents are on the schedule, they automatically go to the shredder without coming here?

J. BOVEY: Yes, the committee has approved it. It agrees that a certain record should be kept for three, five or seven years. They do not come back. It is agreed that that type of record will be disposed of at the expiration of that time period.

THE CHAIR: So when that period expires, they go to the shredder without coming here?

J. BOVEY: Yes, that's correct. The committee has considered it. The assembly has agreed by resolution that this is a practical, sensible, acceptable retention period.

Then we have also the operational record schedules, which cover records of entire offices such as the comptroller general and the vital statistics division. Then we have ongoing record schedules for a variety of ministries. In one binder you will find 92 record schedules and eight amendments to schedules already approved.

The annual accumulation covered in the second category, the ongoing record schedules, amounts to 205 cubic metres a year. That is the estimate of the amount of paper being generated under those ongoing record schedules. Cubic metreage means you have 6,000 boxes this size — some filled to capacity; some slightly less than capacity — that are being disposed of in every calendar year. They would fill 500 four-drawer filing cabinets. It's always a constant amazement and surprise that despite the dawn of the electronic age and electronic systems there seems to be more paper created every year.

We also have in the third category 82 one-time record schedules — 10,650 boxes such as this with a volume of 343 cubic metres. The ongoing records destruction has meant that in the past year the B.C. archives and records service has disposed of 361 tonnes and more than 25,000 boxes, but coming into the offsite record schedules, we have had 61,000 boxes. So the object of the records service — the records

management program — is to try and balance what is.... It was really only introduced in 1984 to achieve a balance of destructions and disposals against incoming records from ministries, because B.C. archives provides low-cost, economical, centralized storage, rather than having every single ministry look after its own offsite storage. We achieve overall economies to the government through this centralized program.

Before the committee are four volumes, including — to go in reverse order — the one-time record schedules, items that are a series of records that end. They are not continuing.

THE CHAIR: As an example?

J. BOVEY: Particularly records of branches that have ceased to operate through reorganization. Here's one from the Ministry of Tourism with records covering the years 1978-1986. The series of general office files ends in 1986.

THE CHAIR: So those files were not on the schedule, then.

J. BOVEY: There have been no ongoing schedules prepared for that part of the Ministry of Tourism as it existed between 1978 and 1986. The records that you asked me to cite as an example document the activities of the now defunct operations division of the Ministry of Tourism. They provided travel information to tourists and educational services to hotel and motel staff, and published *Beautiful British Columbia* until its privatization, so the series ends.

We only began to introduce ongoing record schedules about eight years ago, after the establishment of the records management branch, then a branch of the Ministry of Provincial Secretary.

THE CHAIR: John, would it be...? Sorry. Fred first.

F. RANDALL: I just wanted to ask: does the documents committee deal with these and make a recommendation to this committee? Is there anybody vetting these or going through them and saying yea or nay?

J. BOVEY: Yes, there is. First, they're prepared by the staff of the ministry with input from the ministry records office. Then they come to the archives and records service, where they are thoroughly examined by members of our staff — records analysts.

F. RANDALL: So any that come here are in effect recommended for disposal.

J. BOVEY: You have the unanimous agreement of all members of the public documents committee and the executive of the ministry submitting the schedule. Every form, as you will see, is signed first by the director of the branch concerned; second, by the deputy minister; and third, by the minister of every ministry making a submission.

F. RANDALL: Thank you.

THE CHAIR: That committee is the one comprising the archivist and someone from the comptroller general, the Attorney General, B.C. Systems Corporation, and I forget who the fifth was now.

J. BOVEY: Not necessarily B.C. Systems, but somebody knowledgeable in the field of electronic records.

D. SCHRECK: How do you sort out this endless pile of landfill material from those documents which a graduate student in history may want to examine 20 years from now in order to determine how a key policy decision was made? Is someone looking at the records with the view to what a future historian may want to examine, and taking that out of the seven-year stream?

[9:15]

J. BOVEY: Yes, there is. Judging that is a very serious consideration for records analysts and also for the staff of the archives. Our general rule is that any document related to policy is "permanent retention" and will find its way, when purpose is served by the ministry, to the B.C. archives and records service. But getting launched on it is certainly a major task. After a while staff naturally build up expertise. You're concerned about uniformity in all ministries.

N. LORTIE: Is there any electronic record, or is this the only record that exists? Do they put it on microfiche?

J. BOVEY: Many of these records are on microfilm or microfiche and in electronic form.

N. LORTIE: How do you decide which ones go that route and which ones are just disposed of?

J. BOVEY: By the nature of the material in the record.

N. LORTIE: Then you store these microfiches in your facility?

J. BOVEY: Yes. The archives and records service has a security vault for the master copies of all microfilmed government records.

N. LORTIE: When we dispose of them, how do we know which ones have that kind of backup and which ones do not?

J. BOVEY: That is included on all the forms you'll see. There is a special note on whether or not materials have been microfilmed.

THE CHAIR: If they have been microfilmed, the microfilm is never destroyed, is that correct? Or do you destroy microfiches now?

J. BOVEY: Some records are microfilmed almost immediately, within weeks of their creation. I'm thinking particularly of all the extensive records of the motor vehicle branch. The original hard copy really only lasts long enough to create a film. The microfilm is the

permanent record so far as motor vehicle records are concerned.

THE CHAIR: You don't need approval to destroy the original hard copy when you have microfilmed it? That's just transferring this copy from this form to another form.

J. BOVEY: No, the originals will be covered in a schedule. You can destroy originals — hard copy — almost immediately.

THE CHAIR: Did you bring a copy of the schedule with you?

J. BOVEY: Yes, I have four volumes here to submit.

THE CHAIR: I thought the schedule was a pre-approved, agreed-to, list of documents that can be destroyed without coming back here.

J. BOVEY: Yes, it is. You'll see this in vital statistics, for example. It runs through every type of record, describing what that record is in vital statistics. When you look at the forms, you'll see a description. It lists the record series — for example, birth, marriage and death registers — and how long they are to be kept. That is the Ministry of Health management operations of vital statistics. Then there's a description of the type of record. In this case they date from 1859 onward.

There's an attachment to the form that lists how long records are to be kept — A means how many years active; SA, semi-active — and what the final disposition is: permanent retention or destruction after a set number of years. Ministries have the responsibility for implementing these and making sure that what is scheduled for permanent retention is retained permanently and what is scheduled for, let's say, a seven-year retention is kept seven years and then disposed of.

THE CHAIR: How do you dispose of it?

J. BOVEY: It depends to a degree on the type of record and the confidentiality of the material in it. Anything to do with personal information is now taken to a commercial firm and shredded to fineness according to the confidentiality. Some of them are hammer-pounded until they're virtually dust. It is done commercially. We no longer use landfill dumps.

Records disposal is somewhat more costly because of environmental concerns. At one time a lot of material went to local incinerators or even to the Cowichan Valley incinerator. That was one of our principal agents of destruction, but that has ended now. It all goes to a firm that shreds, pounds and utterly obliterates the readability of the information.

G. FARRELL-COLLINS: Then where does it go?

J. BOVEY: Once the information is destroyed — there are no informational records on the record — they dispose of it in various ways. They sell it, depending on the quality of the paper. Computer papers get a relatively high price; others of mixed material are pretty much junk. I've been told by the firms that there's now a great deal of paper exported from British Columbia in a sort of semi-pulp state, principally to the large markets in southern California, where there's a greater market for recycled material. But it could end up in shingles on a roof or insulation, or any use for second-hand paper. I guess it can be used as wrapping in cartons, by moving companies or whatever.

B. JONES: I'm interested in preparations for this year's disposal, and whether you've been in contact with the information and privacy branch of the Ministry of Government Services in anticipation of new legislation.

J. BOVEY: Yes. That branch is a part of the ministry to which we now belong, the Ministry of Government Services. With respect to confidentiality of destruction, we are certainly very sensitive to the new era we are entering, so far as privacy is concerned. The destructions and the disposal authorities go hand in hand with freedom of information and records management. The B.C. archives and records service is essential if you are going to have an effective freedom of information program, because ministries have to know what they have. You have to have an inventory of the records in your possession, before you can either get access or deny it to anybody — for whatever reason.

B. JONES: Was the massive shredding last October done in contravention of the Document Disposal Act?

J. BOVEY: I'm not aware of any massive shredding.

B. JONES: It was very well reported in the media that bags and bags of shredded documents were leaving the Legislature, as a result of the change of government.

J. BOVEY: The staff of the B.C. archives and records service were very involved with the change of government and the handling of records. As far as schedules go, we have been at considerable pains to make a very clear distinction between what is purely personal or belongs to elected members, and what is the permanent record of the government — what papers belong to all of you, as MLAs, what belongs personally to members of the executive council as cabinet ministers and what belongs to the ongoing government of British Columbia. To the best of our knowledge, there was very little — if any — material destroyed, which affected the ongoing operations of the government of British Columbia.

B. JONES: That clearly was not the case, but I suppose it's impossible to police any breaches of those regulations that you were talking about.

J. BOVEY: The change of government of 1991 was the first time that happened since the records service has been implementing, or attempting to implement, these policies.

B. JONES: I'm sure there won't be a change of government in the future, so we won't have to worry about it.

L. HANSON: I'd like to explain, Barry, that that clearly wasn't the case. I don't think there's any evidence that that was the case.

B. JONES: Some was even reported in the press. For example. . . . .

G. FARRELL-COLLINS: That's exactly the reason not to believe it.

L. HANSON: You believe the media, do you?

B. JONES: Do you want to hear an example? For example, the electronic records and perhaps even the paper records of the membership of people on boards, commissions and agencies were destroyed. It took months for the new government to put that together and to find out who was on what board and commission. Anyway, that's been recorded.

THE CHAIR: Moving on.

D. SCHRECK: How would you determine whether the act had been violated on the destruction of a document in a minister's office? How do you determine what is my record as an MLA, what is a record of a member of the executive council, and what is a document covered by the act? If a document is destroyed in a minister's office, is there any control or check on defining where that document fit into those three categories that I've outlined, or is it done purely on the trust of the staff in that office?

J. BOVEY: We now have records systems prepared — a classification system for every minister's office — so there should be almost no doubt as to what belongs in which category.

D. SCHRECK: If I, as an MLA, send a letter to a minister complaining about something on behalf of a constituent, what category is that letter in?

J. BOVEY: That would be in a private paper one. Letters from constituents are the property of an MLA. He may eventually, and I hope many do, decide to donate them to the B.C. archives and records service at the end of a career.

D. SCHRECK: If I, as an MLA, write a memo to a minister saying that I agree or disagree or hold some other opinion with respect to a policy being pursued by that ministry, what category is that memo or letter in?

J. BOVEY: That should be in the recipient's private papers — anything to do with policy, political considerations. . . .

D. SCHRECK: So the minister could instantly put that in a shredding machine, and that would not be in contravention of the act, in your opinion.

J. BOVEY: In my opinion, yes.

K. JONES: Do you have a set of guidelines that determine what is in these different categories? Have they been published for the benefit of all members of both the staff and the Legislature?

J. BOVEY: We do have such guidelines, but they haven't been published or circulated. The best evidence is reading through the record schedules to see what retention periods are attached to the various categories.

K. JONES: In order to better clarify that for people, so people could plan ahead and know which categories these things would be going into, it would need to be published for them to be able to follow that in practice.

[9:30]

J. BOVEY: Your members may already have seen the brochure that the archives and records service sent out to all caucuses and to the Speaker, offering our services to all members and describing what we are able to do as far as storage and eventual disposition of their personal records are concerned.

THE CHAIR: I think we should move along, if we may.

John, how do we handle this now? We've all got a grounding on what is involved. You leave these records here under the control of the Clerk, do you?

J. BOVEY: Yes.

THE CHAIR: Then we'd expect to meet with you again in three or four weeks?

J. BOVEY: That is correct, yes.

THE CHAIR: We all have your phone number if we need help.

J. BOVEY: All staff would be glad to speak to members individually or to attend this committee to explain anything you may find somewhat obscure. It has become a highly technical, specialized form of submission now, with the various codes that you see on every page. But if there is anything that requires further explanation, we would be very glad to explain how we attempt to assist ministries in the implementation.

THE CHAIR: I think we will be in a much better situation to have a more meaningful dialogue once we have had a chance to go through the schedules. If there is nothing more from any members, we will thank you very much.

F. RANDALL: Aren't these books here so we can see them?

THE CHAIR: Craig is going to take control of them, and they will be available for 24 hours a day, I guess, whenever people want to go.

B. JONES: But that is not necessary.

THE CHAIR: I can just see you wanting to take them home to read them into the wee hours of the morning.

J. BOVEY: I think some of them will give you very sound hours of sleep.

F. RANDALL: How long before we make a decision on it? Are you talking a week, two weeks?

THE CHAIR: Three or four.

F. RANDALL: Three or four weeks?

THE CHAIR: Yes.

J. BOVEY: Feasibly three or more.

THE CHAIR: Within those books, we will be able to understand what these schedules are and what the rotation period is.

J. BOVEY: I certainly hope so. And those that have listed permanent retention as well.

THE CHAIR: Just one further question. Barry brought up the question of freedom of information. Has that caused you to re-examine those schedules, in light of freedom of information?

J. BOVEY: I anticipate that it will be done after the legislation has been introduced.

THE CHAIR: Fine, thank you. Does anybody have any further questions?

J. BOVEY: By the way, Mr. Chairman, in volume 1 is a summary of what we are submitting, as well as the letter of transmittal that I sent to you on April 9. There are summaries of all the material, and I think it would be helpful to look at them before proceeding to wade into the other three heavy binders.

THE CHAIR: Many thanks.

The next item on the agenda is the business plan. Your Deputy Chair, Joy, and I met with Mr. Morfitt earlier this week, or late last week. We asked him to come forward with a proposal as to the way we would approach our function.

G. MORFITT: Perhaps I could just start some discussion going with the committee, because, of course, it is the committee's decision as to how it wants to proceed. As is noted on the agenda, these are the documents, in brackets, that have been sent to this committee for review. There are two sets of public accounts and two reports from my office. One is the full annual report for 1991; it's a wine-coloured book. I don't know if the Clerk has provided copies of it to members or not. I see Joy saying no, so perhaps the first step is to make sure that everybody receives a copy, and I'll make sure that happens.

The second document is the one referred to as the report on the 1990-91 public accounts, which is this green-covered book. Again I would ask if everybody has a copy of that. Everybody does.

In the past, this committee has taken two different tacks with respect to this material from my office. One is to go — as one member loved to say — seriatim, which was starting on page 1 and going straight through. Therefore, if there was something of high interest and contention on page 249, we likely never got there. The last time this committee met in 1990, that was not the case. The committee looked at the subject matter in these reports, reached a consensus as to which items they felt were of particular interest and ranked them. They then set about to discuss them in the ranking order and to call people to the committee meetings to enter into discussion. Of course, I think the latter method is preferable.

What you have, then, are these two reports, both of which have tables of contents which set out the subject matter. It would be presumptuous of me, in a sense, to provide the committee with a proposed ranking of these items, because it's really up to the committee to make that decision. I could lead the members through the table of contents. I'm pleased to do anything for the committee, but I could certainly start there and give you a flavour of what each of the items would be about. Then it would be up to the committee to decide how it wanted to proceed. You're a bit hampered today, because you don't have the 1991 annual report with you, so we wouldn't be able to discuss that very easily today.

THE CHAIR: No, but I think, unless there's any disagreement from the members of the committee, that we want to be issue-oriented in our work. Whether we deal with them from a priority listing is not as important as for us to define what the issues are, first of all. Probably all of us have read this now. There are not a lot of issues, but there are three or four very important ones. Perhaps we could have a listing of those from you and a recommendation of a sensible way to approach them, because they may be interrelated. It may be better to deal with item 3, because that will make it easier for us to deal with item 1.

G. MORFITT: If I could just make some additional comments, Mr. Chairman. This green book — the report on the 1990-91 public accounts — contains the comments of my office on those public accounts which you have copies of, and which are the most recent public accounts that have been published, of course, because we haven't had the financial statements and public accounts for 1991-92 as yet. They won't be forthcoming for several months. Anything contained in my previous annual report relating to the public accounts for the previous year and which is still a difficulty or which should be discussed by this committee has been carried forward into this book here. So part 1 of the wine-coloured book — the previous annual report — you'll find probably doesn't need to be addressed as long as we address this book, which is more current and carries forward any outstanding items that I felt you should know about.

In the absence of any other suggestions or feelings of the committee, perhaps the best way to start is with

this one. In the overview section at the beginning of this, I have taken the liberty — which I've tended not to do in the past, but I did on this occasion — to highlight two matters that I felt were senior issues contained in here. One was the fact that — as I think you're well aware — it was necessary for me to issue an auditor's opinion on the three sets of financial statements of the government, each containing a reservation. That reservation is in respect of unfunded pension liabilities. I felt that that was a senior issue here and should be one that the committee discusses early on.

The second issue was this question of the booking of assets on the balance sheet as receivables or amounts to be collected from others, where the ability to collect is really out of additional moneys coming from the government to collect it back, and whether those should be set up as assets or not. The comptroller general and I are well versed in those two matters, and we can certainly assist with discussion on those two.

Those two might be leaders in things you might want to consider. They are referred to in here, as you'll see in the table of contents, on pages 11 and 12. Then we can just move through the other items, it would seem to me.

THE CHAIR: There are some questions. Ken first.

K. JONES: George, in your previous report, were some things addressed that you didn't bring forward into this report?

G. MORFITT: Yes, indeed, there would be.

K. JONES: Are any of those explorable further from the committee's standpoint?

THE CHAIR: If we wish to, but basically, as I understand it, they're saying that what was a problem is now solved.

K. JONES: If there's any further concern, though, we can go back and explore any of those?

THE CHAIR: Perhaps as a starting point, that would be a very good way for us to quickly deal with those issues.

G. MORFITT: I could cover those as well, but I think we should do that when you have the book for the previous year at hand, because I would speak to the items that I think have been covered from that book and have not been carried forward here.

B. JONES: Perhaps this is something that you and Joy might get together on. Have a look at the items in the previous report and just see if you can agree on items that should be brought forward.

THE CHAIR: I may just bring forward a very quick report stating that it's been dealt with and these were the issues.

J. MacPHAIL: Is that all right with you, Ken?

K. JONES: Sure. I would like to reserve the opportunity to bring to you any concerns I may have.

THE CHAIR: Of course.

J. MacPHAIL: I don't want to hurry on the discussion, but I certainly would like to take your advice and start with the two issues of the unfunded liability of the pension plan and the asset question. I would just like to start discussing it, if that's appropriate.

THE CHAIR: This morning?

J. MacPHAIL: Isn't that what we're suggesting?

THE CHAIR: I'm not sure either.

[9:45]

G. MORFITT: We're all set to go, at your pleasure.

THE CHAIR: There's no problem with that, is there?

B. JONES: Let's do it.

G. MORFITT: One thing I think the Clerk was wondering about accomplishing this morning was making sure the committee as a whole was clear as to how it wanted to proceed over the coming months. Craig might want to comment on whether he feels he's got enough information at this point.

C. JAMES: Actually I don't, but I thought what I would do between now and next meeting is put together a list of issues that the committee may wish to address. I'll just put it all in a document, and then the committee can pick and choose what they would like to tackle and in what priority.

F. RANDALL: I'm just going to ask if we are going to deal with the recommendations handed out today. What's the procedure?

C. JAMES: Those are requests for information from Alan Barnard, the acting comptroller general.

F. RANDALL: Can we not deal with those, too?

THE CHAIR: What we should do with these is take them home and read them, and come back with them next week, because we all got them before the meeting started. I personally haven't had a chance to read them yet.

C. JAMES: Now that there's more information being placed in front of the members, starting next week there will be a sheet coming out from me related to the status of business of the committee and items that will need to be carried forward, as well as those issues that members and others would like to see placed on future agendas.

F. RANDALL: I'd just like to see us start dealing with this stuff, rather than just being handed stuff all the time. Let's make some decisions at some point and start to get rid of some of this stuff.

THE CHAIR: I understand, but I don't think we can deal with these until we've had a chance to digest them.

G. FARRELL-COLLINS: Maybe I'm unclear on what our plan was today, but I know from the last committee that when we discussed our business plan, we would plan our business and look forward to what issues we would be dealing with and in what order, etc. I believe that's the thing — methodology, priorities and time-lines. I don't know that we have time today or that we have established our methodology, our priorities or our time-lines. I think it would perhaps be a little presumptuous of us to start getting right into the meat of the thing before we have a plan as to what we're trying to achieve. I would have hoped — and that's what I thought today was — for an attempt to lay out some of those plans and guidelines, and not deal with the specifics of each issue.

A. BARNARD: Mr. Chairman, I just wanted to be sure that every member of the committee actually had all of the handouts that we had given, so that if any are short I could make sure that they got a copy. The first one was a letter addressed to the Chair, a response to the question last week about the reporting of settlement payments.

J. MacPHAIL: I don't have it.

A. BARNARD: You haven't got that.

J. MacPHAIL: The first one you referred to.

A. BARNARD: It's a letter to the Chair dated April 15.

C. JAMES: Since members won't be actually dealing with these documents today, if it's sufficient for Alan to just to deal with the fact that they're actually in front of the committee, we will ensure that before the meeting next week you will have copies of all the documents.

A. BARNARD: Ensure that we've got enough, anyway.

N. LORTIE: Wouldn't it be better if we had the copies now, so we could look them over before the next meeting?

THE CHAIR: Oh yes, haven't you got them?

N. LORTIE: No. Thank you.

A. BARNARD: The second one was the information in response to those provisions in statutes other than the Financial Administration Act, which contained the wording, "notwithstanding the Financial Administration Act." There is a series of those, most of which I think you will find relatively insignificant.

Then there is a series of three briefing notes which talked to the issue that I briefly mentioned about the reporting of individual payments. The first one deals with the reporting of employee salary and expense payments; the second one, reporting of grants and contribution payments; and the third one, reporting of salaries, indemnities and allowances paid to MLAs, whether they be MLAs or ministers.

THE CHAIR: Now you're really in trouble, because I haven't got one of those.

G. FARRELL-COLLINS: What was the last one?

A. BARNARD: The reporting of MLAs.

THE CHAIR: Which I presume is the one where the briefing finishes with MLAs. I haven't got the other one on salaries, so we'll get those.

A. BARNARD: With respect to the last three, if we are to make changes in the '91-92 public accounts, we will have to have within three or four weeks a determination of your wishes as to our taking this forward to Treasury Board.

F. RANDALL: I wonder if I could make a recommendation to whoever prepares these. If you look at these, they all have the same kind of heading, and they all have entirely different contents. Could you not put in the heading, "MLAs," on the top of this one, salaries on top of this one, and suppliers on top of this one? They're three different reports, yet they all look the same. Just to have a heading on them; otherwise you get so much paper.

J. MacPHAIL: In light of our decision to proceed on methodology and time-lines, which is totally appropriate, I'd like to share with the committee comments that I made to Fred in our working meeting, and to George Morfitt. I'd like the committee to be able to tackle the issue of Crown corporations and have some way of bringing that forward — which I understand is not the tradition of the Public Accounts Committee to date. It's half of the government business.

K. JONES: I agree.

C. JAMES: Traditionally, the Public Accounts Committee in British Columbia hasn't examined Crown corporations, but certainly it is the prerogative of this committee, and it is the method of operation of other public accounts committees across the country — to examine Crown corporations if they appear in any of the documents placed in front of the committee. It's a normal course of events.

G. FARRELL-COLLINS: Can I ask for some clarification on that, Craig? You said that within the normal operations of this committee we can examine Crown corporations in detail or just if it appears in something that is not going to be. . . ?

C. JAMES: In whatever form the issues related to any Crown corporation appear in any of the documents in front of the committee, the committee can certainly go after any Crown corporation and have their officials appear before the committee.

G. FARRELL-COLLINS: For example, if the annual report of a Crown corporation were referred to this committee; then we could dive into it?

C. JAMES: Or any of the statements related to a Crown corporation as they appear in the *Public Accounts* or in the auditor's annual report.

THE CHAIR: The financial statements of every Crown corporation are in the *Public Accounts* that have been tabled in front of this committee. So we don't have any power.

C. JAMES: No.

THE CHAIR: I don't think we should duplicate the work of the other committee necessarily, but it would be good to have an understanding of what they're dealing with and what we're dealing with, so we can let each other know what's going on.

K. JONES: How will we get that definition of the two committee responsibilities?

F. GINGELL: I would presume from the two conveners.

C. JAMES: Technically, the Select Standing Committee on Finance, Crown Corporations and Government Services has no issue in front of it right now. What will happen is that a particular issue will be referred to one of those committees. For instance, it may be B.C. Hydro or some other specific issue. That's probably what would happen in that respect, but the Public Accounts Committee has a more wide-ranging approach, which would be to examine, in as much detail as they considered appropriate, any of the financial statements and issues flowing from those financial statements as they pertain to any and all of the activities of any Crown corporation in the province.

THE CHAIR: That select committee that Joy convenes can deal only with items that have been referred to it. This is going to be the leading. . . .

C. JAMES: That's right.

L. HANSON: But the House doesn't automatically refer Crown corporation reports to this committee.

C. JAMES: No.

J. MacPHAIL: To this Public Accounts Committee?

THE CHAIR: No, to the select standing committee.

L. HANSON: The reports of the various Crown corporations are tabled in the House. The only ones that get referred automatically to this committee are. . .

G. FARRELL-COLLINS: The Public Accounts Committee, you mean?

L. HANSON: . . .the auditor general and the reports. . . . The Crown corporation reports don't get referred automatically to this. If there is a reference to it in the auditor general's report, then yes, we deal with it; but unless it's referred to us, it's beyond us. Is that not correct?

THE CHAIR: But they're all in the financial statements.

L. HANSON: The actual report from the Crown corporation is not referred to us.

THE CHAIR: No, that's right.

G. FARRELL-COLLINS: That's what you're looking for, Joy?

J. MacPHAIL: I want us to be able to deal with the issue of accountability for Crown corporations.

C. JAMES: Here is the issue of the Housing Corporation of B.C. and this 1989-90 *Public Accounts*, which has been referred to the committee, as well. Anything related to the financial statement pertaining to the Housing Corporation of B.C. as a Crown corporation, should the committee or any members wish to examine any part of it, would be procedurally correct.

THE CHAIR: Getting back to the way we are going to approach this, I'd like to suggest that we deal with the auditor's report in the manner discussed. We will arrange with the auditor general for us to start dealing with the issues identified in the report dated January 19, 1992. Ms. MacPhail and I will meet with him with respect to items that were in the 1991 report and not carried through to 1992, and we'll make a brief report back to this committee on the disposition of those items. We can deal with those then.

We should then have input from the members as to the specific issues that can be dealt with by this committee through our examination of the *Public Accounts*. We perhaps need to come up with a to-do list that Joy and I, with Craig's help, will put into some form of time sequence so that the various staff members can be ready to deal with these matters. Is that an acceptable way of proceeding? We're going to have to move to the next step, and we want to do it as quickly as we can. We've got only 15 minutes left now, and there are some other items.

D. SCHRECK: On the agenda, Fred, I think it would be useful if all of us consulted with our respective House Leaders on the matter of meeting out of session, because it will certainly facilitate your planning the agenda to know the time-line.

THE CHAIR: Yes. I can just see that we're not going to have enough time if we don't; it simply isn't going to work.

D. SCHRECK: We are committed to making this committee work, and I think that that will probably be required. I think we need to talk to our respective

House Leaders and then deal with that at a future meeting.

THE CHAIR: Good. Joy, will you take that on for your.... And Harry....

J. MacPHAIL: Yes. I'd like to meet this weekend — all weekend, if we could.

C. JAMES: We'll talk.

THE CHAIR: We'll discuss this later, and I'll do the same thing.

G. MORFITT: Mr. Chairman, I would just mention that I'm not going to distribute these, because you've got enough pieces of paper today. On the matter of dealing with Crown corporations and agencies, what I will do for the committee is put these into a small binder. They are pieces of information contained in our last two annual reports, dealing with the accountability of Crown corporations. There are also listings of what Crown corporations there are. I'll put these in a small binder for everybody, and maybe that can be a starter for considering what to look at when dealing with Crown corporations.

J. MacPHAIL: Excellent.

C. JAMES: For those who haven't yet gone through it, immediately following page C18 in the 1990-91 *Public Accounts* is a list of all the Crown corporations' financial statements — financial statements of government organizations and enterprises that appear in this document. If members could make themselves familiar with that, it might expedite the process as well.

THE CHAIR: There seems to be one issue that we know we're going to be dealing with, and the sooner we get to it the more time we'll have for some of these other issues. That is the question of the two major issues raised in your report: the unfunded pension liability, and whether some assets are deferred charges or what they might be. Perhaps we could be prepared to get straight into that at our next meeting, dealing with the pension issue first.

D. SCHRECK: For our consideration on that agenda item, could we have, if not the full report, at least an appropriate summary on the actuarial valuation that was last done?

THE CHAIR: There are summaries — numbers — here, with the date of the last one. I think I noted that there was one due to be updated on January 1 this year. If we have anything more current....

[10:00]

D. SCHRECK: I appreciate that there are summaries, but in a former life I sat on a committee where I had access to the full report, and I think that would be of more benefit to the committee.

THE CHAIR: Helpful, yes.

K. JONES: This report deals with only one pension plan, I believe, and that's the government employees' pension plan. There are several other pension plans that may require the same scrutiny with regard to unfunded liability....

THE CHAIR: This actually deals with five of them, but I noted....

D. SCHRECK: They're all in here.

K. JONES: Okay. I believe that the recommendation we received is only on the one of them, because the others were not within this jurisdiction.

THE CHAIR: Yes, because of questions about who is responsible.

K. JONES: Yes. I hope we would have access to all of those. I believe the documents were tabled on the various pension plans, but at the moment we haven't received them in our caucus. I'm just wondering if there was some way of expediting that.

THE CHAIR: What was tabled?

K. JONES: The Minister of Government Services tabled the reports of the funds about a week ago, I think.

THE CHAIR: Okay.

D. SCHRECK: Not for the purpose of getting into the debate, but for preparing the agenda, I think that we will have to consider alternative valuation techniques — how wide the variance of unfunded liability is as the valuation technique varies, and the recommendation on whether a public plan should be funded as a going concern or on the assumption of eventual windup. I think each of those assumptions should be examined by this committee if we're going to deal with this fundamental issue.

G. MORFITT: Mr. Chairman, it sounds as though you should consider having the head of superannuation here.

THE CHAIR: I think so, yes. I used to sit on the teachers' pension commission years ago, and we never did anything. I mean, we weren't allowed to talked to anybody or to ask any questions. We just sat, read this little book and were sent back to come again next year at the same time. I am looking forward to the opportunity of having a discussion with the actuaries.

The people who prepare the actuarial reports.... Are they done by outsiders?

A. BARNARD: Yes.

THE CHAIR: Do they normally come to the Public Accounts Committee to discuss their report in the light that David would like to?

A. BARNARD: They have never been asked to, as far as I know — not in my experience.

Picking up on what George said, I think if the committee were to request John Cook to attend, he would be able to give you a pretty good rundown of the actuarial assumptions used, the valuation process and a very detailed breakdown of what's in there.

THE CHAIR: Good. I think that makes a lot of sense. So you can organize everything between you and George, for our next meeting.

A. BARNARD: I will undertake to try and get John Cook here for the next meeting, if he is available.

THE CHAIR: I look to committee members to let me or Joy or Craig know of specific issues that you would like to bring forward to the committee. We will then be able to work on the best way of bringing them forward and dealing with them in a sensible manner. At the same time we will deal with the question of priorities. However, the committee has no problem with us making the number one priority — at this time — the pension question and the other matter raised within the auditor's report. Is that agreeable? Good.

F. RANDALL: We'll be able to find out where the money is invested also, right?

THE CHAIR: Yes, I'm sure. That is in the teachers' pension.

F. RANDALL: I was just reading in an article in the paper that $40 million — I think it was — of a government pension plan was invested in some deal the Bentalls had put together. I'd be interested in some information on that kind of thing — what we're doing with the money.

THE CHAIR: That wouldn't come from Mr. Cook, would it?

J. MacPHAIL: Yes. He sits on the investment committee as well.

THE CHAIR: If there's nothing further on this, then we'll move along to the. . . .

K. JONES: Not being too knowledgeable of how these things work, I have a procedural question. If an item is placed on our agenda for public accounts; does that include it's being brought up under estimates?

C. JAMES: No.

K. JONES: So there can be two kicks at the can.

C. JAMES: Let me clarify that. If there is an issue currently being raised with a select standing committee and the same issue is raised in the House, and a member of the committee raises a point of order to the effect that the issue is being canvassed quite extensively in a select standing committee, then the Speaker may rule it out of order.

K. JONES: That's within committee?

C. JAMES: In the House.

K. JONES: Of supply?

C. JAMES: In any part of the proceedings in the House where there happens to be a Committee of Supply, a committee on bills, second reading or whatever.

THE CHAIR: But this. . . .

C. JAMES: Sorry. If I could just end by saying that reference in the House to work being undertaken in committees may be ruled out of order as well.

THE CHAIR: But this committee deals with the past, and the estimates deal with the future. The next item on the agenda, item 3, is the question of *Hansard*. I received a request from *Hansard* that this committee should deal with the question of whether *Hansard* should be handed out to anyone who requests it, in the normal course of events. I spoke to Craig, and he has a resolution for it.

C. JAMES: It's basically a housekeeping motion which we're using for all legislative committees. If somebody would like to move this motion: Resolved; that subject to the committee receiving further terms of reference from the House, the committee request *Hansard* to attend all meetings of the committee to record and transcribe the proceedings with copies of the committee *Hansard* distributed to all members of the committee, the Clerk of Committees, the Legislative Library, MLAs upon their request; and others at the request of the committee or the Clerk of Committees.

G. FARRELL-COLLINS: So moved.

Motion approved.

THE CHAIR: The next item on the agenda is committee meeting dates and times. You were going to speak to this, Joy. We were hoping to bring the meeting forward at least to 8:45.

J. MacPHAIL: I am available starting at 8:45, if I was the one holding the committee up. I'm sorry, but I haven't canvassed this with my members.

B. JONES: For example, next Tuesday night I have to go to Vancouver. So it's tough getting back for an 8:45 meeting.

THE CHAIR: It's even tough making 9 o'clock. It's sort of 9:20 by the time you get in if you come on the ferry. Could we call the meeting for 8:45? An hour and a half seems to be better. If people can't make it, we'll fill them in afterwards, as to what's happened. Is that okay? I really think the extra quarter of an hour will help.

So the next meeting will commence at 8:45 next Wednesday, the 22nd.

N. LORTIE: When will it adjourn?

THE CHAIR: If it's okay, 10:15.

As for the agenda for the next meeting, we've already discussed that we're going to deal with the pension liability question first. Is there anything else that anyone would particularly wish to bring forward, other than any discussion we will have on these documents that have been given to us?

About that thing that you were discussing, Mr. Morfitt, the earlier we could get those binders would be really helpful.

G. MORFITT: I'll get them out immediately.

J. MacPHAIL: To the auditor general. There is the flip side of the issue of an unfunded liability with a pension. The flip side is a surplus, and it's a controversial issue. I wonder if it's appropriate in the context of our discussion to notify Mr. Cook that I would be particularly interested in that flip side of the issue as well.

THE CHAIR: Everything is open for discussion.

J. MacPHAIL: But it does require some different preparation, that's all.

D. SCHRECK: Conceptually, if we are dealing with the question of discussing how we value the size of the deficit and who is liable for that deficit, then we must say who owns the surplus.

THE CHAIR: Is there any other business any members wish to bring before the committee? May I have a motion to adjourn.

G. FARRELL-COLLINS: So moved.

The committee adjourned at 10:11 a.m.

WEDNESDAY, APRIL 22, 1992

The committee met at 8:49 a.m.

THE CHAIR: We have in front of us the agenda for Wednesday, April 22. May I have a motion to adopt it?

N. LORTIE: So moved.

Motion approved.

THE CHAIR: The first item on the agenda is the business plan — the agenda that the committee is setting for itself. With no further ado, we will move straight into the next item, which is a discussion of the unfunded pension liability. I'm pleased that we have with us today John Cook, the superannuation commissioner, and Doug Pearce from Treasury Board. So if you'd like to join us, please. Alan, are you going to join us? Anybody else? I would presume, John, that you're going to take us through first and explain the current status.

J. COOK: Mr. Chair, I would ask for your comment on one thing. Are you interested just in the public service superannuation plan, or are you interested in all of the public sector plans I administer?

THE CHAIR: All of them.

J. COOK: There are eight different pension plans that I have the responsibility to administer, either by statute or through definition in the plan. Of those, I am the trustee of six. The other two — the public service plan and the MLAs' pension or superannuation account — are not trustee plans in the strict sense, in that the plans themselves call for the appointment of a trustee.

Those eight public sector pension plans cover virtually all employees and employers in British Columbia who are considered to be public sector employers, except for the Insurance Corporation of British Columbia and the three major universities: Simon Fraser, the University of British Columbia and the University of Victoria. Virtually every other public sector employer participates in one of those eight plans.

The plans are: the public service plan, which basically covers the provincial government employees as well as the employees of Crown corporations; the teachers' plan, which covers the teachers of British Columbia; the college plan, which covers the college instructors; and the municipal plan, which is basically a misnomer, but it covers all municipalities, all hospital employees, all non-teaching staff in school districts and regional colleges, as well as any other public sector employer considered to be funded or controlled by the government in the sense that their board of directors has a majority number of government appointees on it. Those four plans are statutory plans.

The next plan, the Workers' Compensation Board plan, covers the employees of the board and is established through regulation. The next one is the B. C. Hydro plan, which again is established through regulation. The seventh one is the B.C. Rail pension plan, which is established through a minute of the board of directors of that Crown corporation. The last is the MLA pension account, which you're familiar with.

THE CHAIR: John, if it doesn't bother you, we will just pop in with questions, because that allows us to move on quickly.

J. COOK: I was under the impression that you were going to ask me questions, rather than having to present, so maybe. . . .

THE CHAIR: B.C. Ferries. Where does that come?

J. COOK: B.C. Ferries is covered under the public service superannuation plan.

D. SCHRECK: The $441 million unfunded liability referred to in the auditor's report, does that refer to one of the eight or some collection of the eight?

J. COOK: That is one of the eight. That is the public service superannuation plan, and the unfunded liability is calculated as an approximation to the way in which the CICA would say it should be calculated for financial statement purposes. It is not the unfunded liability that was calculated for funding purposes. In this particular instance, the actuarial unfunded liability for funding purposes is about the same number: it's $438 million, but it is calculated using a different method and the same assumptions.

D. SCHRECK: Which gets to one of my interests, which is the problem of reflecting these on the public accounts — the unfunded liability. It strikes me that there is a bit of a conceptual difference in showing them on a private corporation, which might not be a going concern, and on government, which presumably is going to be a going concern in one form or another.

When I speak to some private actuaries, they point out that the distinction is not necessarily valid, because future policy could change the nature of the fund, and that unfunded liability would have to be converted in some respect, if the plan were changed from a defined benefit to a money purchase plan, and all that past history had to be carried forward. Do you see an argument for showing public versus private pension fund liabilities on the books in a different way? If they are shown on the books, do you think there should be a note indicating the range of variance in reliability of the estimates?

THE CHAIR: If I may, David, I appreciate you've got to leave and really want to get into this. . .

D. SCHRECK: That's right. That's why I'm pushing all my questions, right?

THE CHAIR: . . .but we've got a lot of background information that we need to get, before we get to the unfunded liability question. I think we need to understand first what the funds are and how they're administered. I really think we should build up from that base.

D. SCHRECK: That's fine. We'll be at this for some time, I'm sure. Ironically, the reason I have to leave is to talk to the Retired Teachers' Association about the security of their plans and their future.

J. COOK: Which are very secure by the way. That is a message you should give to them, that the plans are very secure and that the benefits promised under the plan will be met.

THE CHAIR: Let's get back to the starting point. John, carry on with telling us who's included where and what all the funds are.

J. COOK: Starting with the public service plan, then, since we're concentrating on the unfunded liability and the funding mechanisms surrounding the plans, the information I will give you is as of the last valuation done under each of the plans, rather than bringing the asset base to where it is currently, so you can get a proper comparison of assets to liabilities.

Under the public service plan, the last valuation was done as of March 31, 1990. At that time, on a going-concern basis, the assets were $5.447 billion. Those assets include the invested assets of the plan, which at that time were $3.107 billion, and the remaining part of the assets is the promise by both employees and employers to pay contributions in the future discounted to the date of the valuation.

I'm sorry, I've given you the wrong numbers. The total assets were $5.009 billion. The total liabilities were the number I gave you before, $5.447 billion. Because the liabilities exceed the assets, that leaves an unfunded liability of $438 million.

THE CHAIR: Hang on. For the record, John, you'd better switch it around.

J. COOK: Yes. For the record, the total assets are $5.009 billion.

F. RANDALL: Which plan is that?

J. COOK: That's the public service plan, and the liabilities....

K. JONES: Is it $5.9 billion?

J. COOK: No, $5.009 billion, and the liabilities were $5.447 billion.

F. RANDALL: What was the $5 billion number?

J. COOK: Let me start over again. I'm sorry, gentlemen. The assets were $5.009 billion, and the liabilities were $5.447 billion. The unfunded liability was $0.438 billion — $438 million.

G. MORFITT: John, if I could just interrupt and say that in this green report of our office, at the back on page B17, you'll see this recorded in the note to the financial statements, just in case you have to refer to it again.

J. COOK: The total assets of the teachers' pension plan, at the last valuation — which is not included in the information George has referred to, because there has been a valuation completed since then, as of December 31, 1990 — were $5.682 billion, and the total liabilities were $7.561 billion, leaving an unfunded liability of $1.879 billion.

The municipal superannuation plan....

[9:00]

N. LORTIE: Just a minute. That was the teachers'?

J. COOK: That was the teachers' pension plan.

N. LORTIE: Didn't you just tell David that....

J. COOK: I told him, yes.

D. SCHRECK: We'll return to that question in a moment. Let's go through the rest, because I have a lot of questions in that regard.

J. COOK: The municipal superannuation plan: the last valuation was done as of December 31, 1988. Total assets were $5.42 billion; total liabilities, $6.502 billion; and unfunded liability, $1.082 billion.

The college pension plan: the last valuation at August 31, 1988; total assets, $342 million; total liabilities, $372 million; and unfunded liability, $30 million.

When these pension plans are valued — typically every three years — we ask the actuary to do two things. One is to tell us what the relative health of that pension plan is compared to the previous valuation. The other is to recommend to us what contribution rates would be necessary in order to maintain the health of the pension plan. Although you've asked me to concentrate on the unfunded actuarial liabilities, I believe that that is only part of the total equation when one looks at the health status of a pension plan.

These four pension plans are funded.... At least, the funding policy for the pension plans says that the contribution rates for the future should be sufficient to cover the cost of providing pension benefits to the typical new entrant to the pension plan as well as an additional contribution to maintain the unfunded liability as a constant percentage of future payroll. That means the policy that exists today allows the unfunded liability to grow, but not to grow any faster — or slower, in a sense — than payroll grows. If one were to look at those measures over time, one would see that over the last ten years there has been an improvement in that ratio. In other words, the unfunded liability as a percentage of payroll has gone down over the last ten years in each of the pension plans. So from that point of view, the funding of the pension plans have improved.

Another means to look at whether the pension plans are being properly funded or not is to look at the pension fund on a termination basis. That is, what would happen if the plan stopped today, and there were no further benefits accruing nor contributions being made to the pension plan? On that basis of looking at these pension plans over the last ten years, in each of the plans there has been an improvement in

that ratio. So the ratio of the assets in the pension plan to the liabilities on a termination basis has improved significantly in each of the pension plans over the last ten years.

K. JONES: Will you be explaining to us how this unfunded liability came about? Was there a problem with the actuarial assessment originally? Or is it because the assets were valued at a lower value or the returns were made at a lower value than market or than had been used for the basis of the actuarial decision?

J. COOK: Whenever there is an unfunded liability or a surplus — because either of those two events can occur since it's the unfunded liability; the surplus is really just a balancing item — it is generally caused by either the contributions or the investment return being insufficient to cover the liability. That's what the equation is all about. You are comparing assets, which are contributions and investment return, to liabilities, which are benefit promises, and saying on some basis — using some methodology and assumptions — what the comparison of the two is.

THE CHAIR: Or there could have been a one-time improvement in the benefits that haven't been funded.

J. COOK: The benefits are shown on the liability side, and if there was an improvement in benefits without an improvement or an increase in contributions, then that could lead to an unfunded liability, yes. But there are a whole lot of things in the equation that lead to unfunded liabilities occurring. What I said is that you choose a method and then you choose some assumptions, and the assumptions typically fall into two categories: the economic assumptions related to interest rates and salary growth; and the demographic assumptions that have to do with things like the probability of withdrawal and termination without receiving a benefit, the probability of dying and receiving a survivor benefit, the probability of retiring either on a premature basis or at the normal retirement age, the probability of being disabled and a number of other things. Because they are assumptions, they are de facto going to be wrong. Whenever they're wrong, either an unfunded liability occurs because of that, or a surplus occurs.

THE CHAIR: Going back to Mr. Jones's question, is the unfunded liability here the result of lower-than-estimated investment returns, lower-than-required contributions or a mix of both?

J. COOK: It's a mix of both and more; that's what I'm trying to tell you. For example, today one of the major reasons that the unfunded liability is growing in some of the pension plans is twofold. One is that people are living longer, and the assumptions, made ten, 20 or 30 years ago when the contributions were coming in for those individuals were using mortality tables that were saying that people would die earlier than they actually are dying.

Another is the fact that over the last ten years the average age of the typical new entrant in the pension plan has increased. That means that contributions now play a greater part in providing the benefit than interest does, because the person is in the pension plan for a shorter period of time. That's in the short term.

When you go back historically and look at what happened in the fifties, sixties and seventies, you could say that there were some periods when the contribution rates were not as high as they should have been. It would also be fair to say that I don't know if it was the policy at the time to see that the contribution rates were sufficient to cover the full liability under the pension plan. Since 1980, the policy has not been to have contribution rates that would pay off the unfunded liability.

D. SCHRECK: To follow up on the same line of questioning, it strikes me that it's important from time to time to measure the extent of the error in the assumptions and to quantify how much each factor added to the error. It strikes me that one could go back to various valuation points and look at the unfunded liability at those points and at any policy decisions made with respect to investments, benefits and the remainder of the actuarial assumptions in the valuation. At the next valuation point, if the unfunded liability changed relative to the previous assumptions, one could quantify precisely why it changed with respect to variance from each of the assumptions, so that we would know whether the investment policy was unfortunate or unlucky, as the case may be. Was it that the benefits were improved without any provision for funding? Or was it any of the other factors that could violate the assumptions? It becomes a tautology to simply say that there's an unfunded liability because the assumptions were violated. In my mind, what's important is to quantify precisely which assumptions were violated, by how much and how much each violation contributed to the unfunded liability problem.

J. COOK: We do that. One of the components of the actuarial report is that it accounts for the change in the unfunded liability from one valuation to another.

THE CHAIR: So you could take all the reports, and it goes back?

J. COOK: Sure, you can do that. That's why I tried to give you a flavour for what the reasons are, without specifically going back valuation by valuation. If you wanted to do that, I could get the reports and take you back valuation by valuation — what each of the differences between the actual experience and the assumed experience was.

THE CHAIR: Good. I think we'll find that very useful.

K. JONES: In the near future, could we expect from you a detailing of how many of the current asset investments are below current market value?

J. COOK: I can tell you. None of them are below current market value.

K. JONES: What about then, with regard to past. . . ? Were investments made, say, at Crown corporations or other sources of government operations, below the rate of return that would have been currently available within the public market?

J. COOK: I don't know that I could quantify that. The question of whether that is true has been asked a number of times. I'm told that back in the late sixties and early seventies were some instances in which bonds were purchased by the pension funds at rates below the market. My information is that there weren't an awful lot of those. In terms of the assets at that time, it may have involved as much as $12 million to $15 million of the assets. The difference between the rate given on the bond and the market rate at the time was in the neigbourhood of one-eighth to one-quarter of 1 percent. So it's very small in terms of the total picture.

I certainly think it would be improper to lay the unfunded liability, as it exists in the pension plans today, at the feet of those decisions. But it would be very difficult to actually go back and determine on an asset-by-asset basis. The assets bought during that time are probably not in the pension fund now.

THE CHAIR: If you're talking about only one-eighth of 1 percent, it's not even. . . .

K. JONES: Can we just explore another aspect? Is there some document here that would give us a listing of how much of the investment portfolio is invested in government agencies or departments?

J. COOK: Currently invested?

K. JONES: Currently.

D. PEARCE: I don't have the document here, but we can certainly provide it. It's in the *Public Accounts*. Certainly in the bond portfolio, there are government of Canada bonds and other provincial government bonds. I can vouch for from 1980 on, and I know for certain that all the investment activity has been at market rates. When we get to my presentation, I've got a bit of a performance review here, so I can go back over that.

K. JONES: Okay, we'll wait for that.

F. RANDALL: Maybe I should just ask a couple of questions here. There's no plan in place right now to eliminate the unfunded liability in effect; the program is tied. You're always going to have an unfunded liability, regardless?

J. COOK: That is the existing policy. Short of that, I don't think I can answer very much more on that, because as with all policies in any government, the policy is under review. I cannot speculate on what that review might cause to occur.

F. RANDALL: It carries on the way it is unless there's a review.

I take it that all the contributions are different in each plan, and that's why there are eight plans.

J. COOK: That's right.

F. RANDALL: Each plan is a little different.

J. COOK: Yes.

F. RANDALL: Okay. There are comments in the report about the MLA pension account, but no actuarial valuations are done on that plan at all.

J. COOK: That is because there's no statutory requirement to do so. However, I'd also add that I think it would be nearly impossible to do an actuarial valuation of that plan. You'd probably be better off to pick a number and say this is what the liability is for the plan. I don't know that any actuary would want to predict how often any one of you would be re-elected. That's one of the probabilities that would have to be taken into account in doing a valuation. Because it is not a large liability, I think you could use some very simplistic methodology to come up with a reasonable approximation of the liability.

[9:15]

F. RANDALL: The auditor general's report is recommending that that be done.

J. COOK: That's true.

F. RANDALL: You don't agree with it?

J. COOK: I don't agree with doing a full-scale actuarial valuation. I don't know that it would tell you anything. It would tell you something like: the range of the liability in this scenario, and using these probabilities, is from maybe $3 million — using this set of probabilities — to $15 million. I'm saying that when we're talking about the size of business the government is in, it's not material whether it's $3 million or $15 million. So why don't you just pick a number and save some money, rather than making an actuary rich?

F. RANDALL: There's also a comment in here that says we are concerned to date that the government has not adopted the actuary's recommendation regarding contributions to the plans. Who brings that forward as a recommendation? Does saying that contributions should be increased come from the administration, the administrator or the trustees of the plan? Who deals with that? Who goes to the government and says. . . ?

J. COOK: I do.

F. RANDALL: Have you done that yet?

J. COOK: Yes.

THE CHAIR: John, could you give us the policy written out? I presume that it is written out.

J. COOK: The policy for how the contribution rates are calculated?

THE CHAIR: No, the policy that deals with the contribution levels — i.e., the unfunded liability will increase as a percentage of payroll by no more than. . . .

J. COOK: I can do that for you. That information is in the auditor general's report, in the red book. He has described that methodology, but I could do it for you, if you wish.

THE CHAIR: No. If it's in here, that's fine.

F. RANDALL: I just had one more question. Are all the plans indexed to inflation?

J. COOK: In some form.

F. RANDALL: What's the formula?

D. SCHRECK: It varies.

F. RANDALL: It varies?

J. COOK: Indexing is part of the concern. Indexing is based on a formula which says that certain contributions and investment earnings go into an account for indexing purposes. Provided that there are sufficient funds on a terminally funded basis to buy full indexing at a particular time, full indexing will be bought.

F. RANDALL: So no indexing whatsoever is guaranteed? They only get indexing if there's money in the account.

J. COOK: There's no guarantee of full indexing in the plan.

F. RANDALL: Most people assume that there is, don't they?

J. COOK: I don't know what you mean by "most" people. Certainly the people I consult with know very clearly that there is no guarantee of full indexing.

F. RANDALL: Do all plan participants know that?

J. COOK: They have communication material that says that. Having said that, you may be closer to what they actually believe than what has been communicated to them. I can show you communication material that has gone out that would very clearly show them that they do not have guaranteed indexing.

F. RANDALL: We're going to get a report on the investments, such as whether they're in U.S. funds, who makes investment decisions and just what's happening as far as investments go. I assume that's another report.

J. COOK: Yes.

D. SCHRECK: You've gone through the list of the eight plans for which it is practical to estimate an unfunded liability. Page 11 of the auditor general's report makes the observation that the $441 million from the public service plan should be included in the government's financial statements. Why isn't there a parallel recommendation for the unfunded liability of the remainder of the plans? Is there a difference in the responsibility of government to those unfunded liabilities? Is there a statutory requirement that's different from the one on the teachers' plan or other plans, where the government would have to pick up the $441 million if we valued on a windup basis?

J. COOK: I can tell you what the statute says about the government's responsibility to those plans, but I'm not the person to whom you should direct the question of whether it should show up in the government's books.

D. SCHRECK: That's fair enough. Ultimately I want to get an answer to this question. I have no trouble with showing that. As an economist, it strikes me that the $441 million should show in the books. But it also strikes me that either the rest of the liability should show on the books too, or I need an explanation as to why they're treated differently.

J. COOK: I should defer to the comptroller general on what is and what isn't in the books. That's his responsibility. The plans themselves are statutory plans, and the benefit promises will be met unless the statute changes. That's the bottom line, as far as I'm concerned. There has never been non-payment of a benefit to an individual under any circumstances.

D. SCHRECK: Are you making that statement with respect to all eight plans?

J. COOK: I'm making that statement with respect to the five statutory plans, including the MLA plan.

THE CHAIR: George, do you wish to answer the question that David's been following?

G. MORFITT: We've endeavoured to do that on page 31. I agree with John that maybe Alan Barnard would like to make a comment from an accounting point of view. I'd be happy to add anything that might be appropriate to that. I'm sorry, Alan. That takes it over to you.

A. BARNARD: No, that's fine. Thanks, George. Our interpretation of the statutes is that the government is definitely liable for the unfunded liability of the public service plan and the college plan, but there is no statutory obligation for any of the other plans. The independent financial review completed recently did indicate that government should take a look at its position because of — I think the wording was — a very strong moral obligation to fund some of these plans in the event that it is necessary. Presumably government will be looking at how it views that particular moral obligation.

J. COOK: The reason for the position held by the comptroller general is that in those two statutes, the Pension (Public Service) Act and the Pension (College) Act, is a particular provision that refers to the govern-

ment guarantee, in a sense. It's not entirely clear, but that provision is not in the Pension (Municipal) Act, nor is it in the Pension (Teachers) Act. That is the genesis of the position that has been held in the past.

THE CHAIR: John, when you say that everybody has received the pension that they anticipate receiving under the terms, the inflation portion, which requires the payment of it to have been funded, I would presume.... If that account is underfunded on whatever actuarial valuation one is making, are you still making the inflation-proofing payment?

J. COOK: Let me just back up a bit on that. That account can never be underfunded, because the commitment is to spend only as much money as is in the fund. The idea of there being an actuarial valuation done of it is illogical. If you're referring to the comment from the auditor general's report, I have repeatedly said to the auditor general that his recommendation makes no sense, because he's asking me to value a promise that hasn't been made. The promise that's been made is to spend only money that is there.

THE CHAIR: Is it true to say that those who get their fingers in the pot first will be the ones who will get the inflation-proofing if the promise cannot be lived up to? Or do you allocate it to the 10,000 or 20,000 people...?

J. COOK: It's paid out, just as you've indicated, to the people who are on pensions at the time an increase is to be paid. It has, in the past — with paid indexing — been paid to people who have never made any contributions at all into the indexing account, because it just started up, and it provided indexing to anybody who'd been on pension at that time.

THE CHAIR: And that wasn't funded?

J. COOK: It's funded by the current people. It wasn't funded by those individuals.

THE CHAIR: But at the moment they said: "We're going to start indexing right now, and we're going to include all you people from the past who are presently earning pensions." Nobody added them up, took their life expectancy, calculated it out and said: "That will be $58 million, please. Put the money in the fund."

J. COOK: No, because that wasn't the arrangement. There was an intergenerational transfer that was agreed to take place through the provision of indexing.

F. RANDALL: How does the money get in the fund? What's the requirement to put money in the indexing accounts?

J. COOK: Let me just give a typical example of one of the plans — the teachers' pension plan. One percent of salary for each teacher goes into the inflation adjustment account, and 1 percent of salary is paid by each school district on behalf of each teacher — so 2 percent of salary is going into the fund.

F. RANDALL: That's the indexing account?

J. COOK: Into the inflation adjustment account, which provides the indexing.

The second part is that what we call the excess interest over the actuarial valuation rate on the liability, or the asset attributed to the pensioners, is transferred into the account. That means, for example, that if our investment manager earns 11 percent during the year — our typical actuarial rate over the last ten years has been 6.5 percent — the difference between 11 and 6.5 on the pensioner liability is then transferred into the inflation adjustment account to purchase indexing.

F. RANDALL: Are you only using an assumption of 6.5?

J. COOK: Can I finish answering your question first? I would hope we could keep to one issue at a time.

Thirdly, the fund itself then earns its own interest, its own investment income, because it's invested. That's where the income for the fund comes from, over time. The expenditure for the fund is that every year when we provide indexing — for example, at January 1 we're to provide full CPI indexing if we have funds available — we calculate the value of that for the pensioners currently being paid, and take that money out of the fund and put into the basic pension account.

F. RANDALL: To get back to the question, is the assumption of 6.5 being used for all the plans?

J. COOK: No.

F. RANDALL: What is the assumption rate?

J. COOK: The assumption for interest is typically 6.5, and that is reasonable. I think it's unfair and improper to pick out one assumption and look at it in isolation. When you're looking at economic assumptions you should look at the combined effect of the interest or investment assumption with the salary growth assumption, particularly in a plan like ours, which is a defined-benefit pension plan and one in which the liability is growing by whatever salaries grow by, because it's based on the final average salary of the plan participants. The important thing to look at is the difference between the interest assumption and the salary assumption. For our pension plans, that difference is reasonable when compared to what any actuary would do in looking at the particular valuation.

If we have situations where we actually earn more than 6.5 or the salary growth is less than 5.5, then there are gains or losses, depending on which way the difference occurs. But it is, I believe, an appropriate set of assumptions that are established. Our actuaries are independent of us. We don't tell them what they are to use. They use their best judgment in setting the assumptions, and I believe you wouldn't find the assumptions out of line with what any actuary would use in valuing our pension plans.

F. RANDALL: I've always understood that 6.5 percent was about the lowest assumption used. A lot of

plans are as high as 8.5 percent, 8 percent, 7.5 percent, 7 percent.

J. COOK: What is their salary growth assumption? If they're 8.5 percent and they use 7.5 percent for salary, then the net result is no different than the 6.5 we use and 5.5 percent for salary. It's the difference between the two that's important, not the relative value of any one of those assumptions.

F. RANDALL: The assumption is not the assumption used.... I mean: that determines the benefit you are going to pay, right?

J. COOK: No. That has nothing to do with the benefit. It has to do with valuing the asset in the balance sheet, which is done for actuarial purposes. It has nothing at all to do with the benefit. The benefits are entirely separate. They are determined by a formula based on length of service, highest average salary and relation of salary to the YMPE under the Canada Pension Plan. This is a defined-benefit pension plan, not a defined-contribution pension plan.

F. RANDALL: Maybe I misunderstood it, then. I've always assumed that if an assumption was used at 6.5 percent, then you paid pensions assuming that you were always going to have a 6.5 percent return. But that's not the case, as you say. Okay.

THE CHAIR: That would probably be different, Fred, if it was lifetime average earnings. This is where the problem always comes from, in my mind. The pension plans are promising to pay something that you cannot define at this moment, because you don't know promotion and inflation.

George, did you want to add something; and then Gary?

[9:30]

G. MORFITT: I just wanted to clarify that I don't believe my office has suggested that there should be an actuarial valuation of the indexing. Our comments are on page 32, and they are restricted to suggesting that the government regularly advise plan members on the current status of the special accounts relating to inflation. We've heard what John has said, and we haven't suggested there be an actuarial valuation of that issue because, as John says, the only thing that can get paid is what's in the account.

J. COOK: Yes, I think that's right. George, I'm sorry. I was responding to the question from the Chair and he was reading from the first report of yours, which did say that. It was subsequently softened in the second report, I think, after further discussion with my office.

G. FARRELL-COLLINS: I have a quick question for you. I'm relatively new at this and relatively young, and I haven't had a lot of time to investigate pensions, so I'm learning a lot. My question is fairly simple. When you talked about indexing and the start-up of the indexing, you talked about an intergenerational agreement. Can you explain to me what that means?

J. COOK: I'm sorry, I didn't mean "agreement" if I said that; it was an intergenerational transfer. Basically, that means that the people receiving the benefit are going to be paid by another generation of plan members. The best example of that is the old age pension plan. You and I, as taxpayers today, are paying for people who did not necessarily work but were resident in Canada sometime in the past. We're paying the benefits for them today out of our income, so there is an intergenerational transfer taking place.

THE CHAIR: Because it wasn't funded at the time.

N. LORTIE: I need a sort of global picture here. In your opinion, is this unfunded liability significant, and how does it compare to what happens in private industry funding? Are they required to have funding for all their liabilities in some way, and are we doing something that is different in the general public?

J. COOK: If this were a private sector pension plan, the unfunded liabilities would have to be funded over a period of time depending on what the cause of the unfunded liability was, and that period would vary from five years to 15 years, I believe, for private sector pension plans. Having said that, our plan having a continuing unfunded liability would not meet that criteria. In comparison to other public sector pension plans across the country, our plans are well funded. They range from, on a termination basis, being 60 percent funded in the teachers' case to actually having a surplus on a termination basis in the college pension plan, which is a small one. The other large one, the public service, is about 90 percent funded on a termination basis. So they are well funded on that basis, and they are certainly well funded in comparison with other public sector pension plans.

You have probably heard the horror stories about the federal civil service plan and the funding arrangements they have. I think it's quite appropriate that the auditor general has brought this issue to the forefront right now, because it is a common issue being dealt with by governments across the country. They're starting to turn their attention toward what is happening in the pension plans so that they can be appropriately dealt with. I think it's really good timing for this report to have hit now, because it will give everybody an opportunity to better understand and then react in an appropriate manner to changes to the pension plan.

N. LORTIE: So we should have a plan over a period of time to bring the funding levels up to 100 percent?

J. COOK: Again that depends on your philosophy. The philosophy behind the existing policy says it's all right to have unfunded liabilities because governments will always be here. Unlike the private sector, where you want to be careful that you might go out of business, the government is not likely to go out of business.

The agreement was essentially that there was a structural unfunded liability that existed in the plans back in pre-1980, and that it would just continue to sit

there and be allowed to grow, in absolute terms but not in real terms.

THE CHAIR: You told us that the policy is written out here in the auditor general's report. I didn't see it in the latest one, but I must admit I haven't been through this one. Could you give us the philosophical basis for the policy? Would it be appropriate for us to ask you, as an FCA — which I presume you are — what. . .

J. COOK: I am an actuary, yes.

THE CHAIR: . . .your professional opinion is on the subject, or should we go to an outside actuary for that?

J. COOK: I think that's your call. The philosophy behind the current funding arrangement is that we're saying, for anybody who comes into the plan as a new participant in the pension plan, that their benefits should be funded over their working lifetime. I think anybody would agree that that seems to be reasonable.

THE CHAIR: Yes.

J. COOK: The second part to it is to say that there is this structural unfunded liability that existed in the pension plans prior to 1980, and that any decisions related to that will be deferred on it. The fact that the unfunded liability is not paid down will not impair the government's ability to pay the benefits to the individuals.

The one problem with this is that the unfunded liability gets to be a big number — if it's allowed to grow, as payroll will grow over time — and in itself becomes scary to the participants. They start to see this big number that they can't understand and so get somewhat concerned about it, as do others.

In terms of whether I think the plans are in jeopardy, I think that if you were to read our actuarial valuations and the recommendations of the actuaries, they would tell us — and tell you and the plan members — that the plans are in good financial health, that they see some minor adjustment being made in the contribution rates under the plans and that they have recommended some changes, which have been documented by the auditor general. To some extent, the plan sponsor should move with those recommendations, if it's agreed that the policy I've just enunciated is appropriate.

From my perspective, plan sponsors should determine what policy they want to follow, and if it's a policy that pays off the unfunded liability over a period of time, then so be it — it will be paid off over a period of time. But if it's not, I don't think that that in itself impairs the ability of the plan to provide the benefits that the plan members are entitled to.

THE CHAIR: John, you talk about the unfunded liability not changing as a percentage of payroll. Does that mean that we are continuing to underfund now at the same rate as we have in the past?

J. COOK: No, I don't think it means that. I think that if you're looking at underfunding today, you should look at the difference between the contribution rates that have been recommended by the actuary for the future, as compared to the actual rates of contribution being used to calculate the contributions paid by employees and employers. I don't think the unfunded liability is changing in the way you've suggested.

THE CHAIR: Does it mean, then, that the relationship of total assets to total liabilities remains the same? I'm just having a problem with how you measure the unfunded liability as a percentage of current payroll.

J. COOK: Let me give you some numbers, if that might make it easier for you to understand. In the public service pension plan, the superannuation plan, if we go back to two valuations ago — so I'm going to give you information from three valuations — the unfunded liability as a percentage of payroll at that time was 52 percent. In the next valuation along, the number was reduced to 41 percent of pay, and in the one just completed, it's 35 percent of pay.

Although you can see that the policy was that it should have maintained itself at around 50 percent of pay over time, because of the circumstances of the last ten years, there has in actual fact been an improvement. That improvement has occurred essentially because of two things, I think — aside from something on the demographic side. Principally on the economic side, interest rates have been very high compared to the assumptions we used in the plan, and salary growth has been low in comparison. In some of those evaluations, there have been gains on both sides. We have interest higher than 6.5 percent and salary growth of less than 5.5 percent.

THE CHAIR: So the unfunded liability, as a gross number, has dropped?

J. COOK: In the public service plan, it has actually gone down as an absolute number.

THE CHAIR: So this differential between interest rates and salary inflation was sufficient to cover the current underfunding?

J. COOK: Yes.

THE CHAIR: But there is current underfunding, isn't there?

J. COOK: In the public service plan that I have just talked about, the current underfunding is about a quarter of 1 percent.

THE CHAIR: Of payroll?

J. COOK: Of payroll. And I would think it is not necessarily a sufficient difference to move on, because of the nature of the assumptions that those rates are based on. It is apparently moving in one direction, and I would suggest that some serious consideration be given to making changes in the contribution rates at some point. That is the best-funded of the pension plans.

If you want to take the extreme the other way, you would look at the teachers' pension plan. It has higher contribution rates than any of the other plans, but also has the highest unfunded liability, and those same comparable numbers are much higher. In the teachers' pension plan, three valuations ago, the unfunded liability was 140 percent of pay. On the next valuation it was still 140 percent of pay, and on the most recent valuation it was 134 percent of pay. So you haven't seen as much movement there.

That plan is very similar in its benefit structure to the public service plan. In fact, all of the statutory plans have similar benefit structures, but this difference reflects a number of things peculiar to the teachers' pension plan in terms of the plan participants. What I mean by that is that, in the teachers' pension plan, you are typically talking about individuals who will participate, who have made a decision to make teaching their career, and so they are likely to be in the plan for much longer periods than any of the other plans' participants.

Secondly, women participate in teaching to a greater extent than they do in other parts of the workplace, so we find there are more women who will end up receiving pensions under the teachers' pension plan than in the other pension plans, and that is more costly, because women live, on average, seven or eight years longer than men do. For receiving the same salary, you have to have more money going into the pension plan in order to pay for the benefits that these people are going to be entitled to.

F. RANDALL: I have a question, John. I wasn't too clear. . . . On termination, you used the words "termination 60 percent," "termination 90 percent," and I assume that that's on the basis that there were no more contributions coming into the plan, and you paid out the pensions that people were entitled to. They would get 60 percent or 90 percent, depending. The plan would carry on but no more contributions. Is that right? [9:45]

J. COOK: And no more benefit accrual for the people who are working. Their benefits may be getting bigger, because you would provide for their salary increases in determining their highest average salary, but they wouldn't get the future years of service from that termination date to the date they actually retired, because there are no contributions. So it's saying: if in these plans we were to pull the plug today and say they are no longer there, we're going to put in some other arrangement for pensions for public sector employees, then that's what you'd be looking at.

THE CHAIR: The pension plans are actually double inflation-proof, aren't they? They not only base the pension on the highest five years' earnings, or three years' earnings, or whatever it is, but they also have factors for the inflation that takes place after the person commences to receive that benefit.

J. COOK: Well, it's actually more than that. For someone who works right up until retirement — except in the MLA case, but in all the other pension plans — it's the highest five-year-average salary. If somebody terminates before retirement and they have sufficient service to be entitled to a pension — currently that means they have more than ten years of service — then their pension is based on their highest average salary at termination indexed to the date on which they retire. So there's an aspect of pre-retirement indexing that occurs within the plan.

Similarly, if an individual becomes disabled and receives a long-term disability benefit from their employer, that individual will have their highest average salary at the date they became disabled indexed through to the date on which their retirement pension commences.

The third aspect of indexing is the part that you've just referred to, the post-retirement indexing, which is paid to an individual who is on a pension. Typically it starts no earlier than age 60, but will start before age 60 if the individual has 35 years of service at retirement.

F. RANDALL: Just one quick question. I wouldn't mind a quick comment on the MLAs' plan. There are a few MLAs in the room. I don't know very much about that plan. Is there anything that we should know about it?

J. COOK: It's a good plan. When you're ready. . . .

N. LORTIE: You have to be elected twice, though.

J. COOK: You have to be elected twice in order to. . . .

THE CHAIR: Yes, you're going to have a tough time, Norm.

F. RANDALL: Is that the best information — elected twice?

J. COOK: The current vesting provision is that you either have to be elected three times or have served seven years.

F. RANDALL: Oh, it's three times.

J. COOK: It's elected three times or served seven years. Typically what happens is that you serve seven years before you're elected three times, so you become eligible. The reason I think it has some value is that the plan also has a provision that says you don't have to start contributing when you're first elected. You can wait until the point that you are vested, which is at the seven-year point, and then you can buy back your seven years at that point in time.

THE CHAIR: With interest?

J. COOK: Yes, certainly.

THE CHAIR: I just wondered.

B. JONES: Start saving your pennies.

F. RANDALL: What's the percentage each year? Is it 3 percent or 4 percent?

J. COOK: The actual formula?

F. RANDALL: Yes.

J. COOK: It's 5 percent of your highest four-year-average salary or indemnity as an MLA.

F. RANDALL: The federal government lets you get away with 5?

J. COOK: That issue is currently under consideration. It's not "allows" you to get away with it. Our MLA plan is very similar to other MLA plans and the MP plan for federal politicians. If you're asking whether it complies with Revenue Canada rules for pension plans, the answer is no, it doesn't.

THE CHAIR: But that's not relevant.

J. COOK: Well, it is and it isn't, in terms of the deductibility of your contributions. You want to have a plan that's registered. There is some discussion going on now as to how to not reduce the benefit but to separate the plan into two plans: a registered pension plan that complies with the rules for Revenue Canada, and the other part, the non-compliant part. The benefits can be provided, but they can't all be called pension benefits.

F. RANDALL: It's a pretty good plan, then?

J. COOK: It's an exceptionally good plan for the contributions that you pay for.

THE CHAIR: Don't bank on it lasting.

N. LORTIE: I've already joined that plan.

THE CHAIR: John, just looking at the discussion that we've had and the need for all of us to have a little more understanding, we need to get the philosophical questions sorted out in our own minds before we move on any further. Without understanding that, it's very hard for us to evaluate, in our own minds, the unfunded liability question. If you could give us something further on that during the next week or so, that would be most helpful. Send it to Craig James, so that he can get it distributed to us.

B. JONES: I apologize for being late. We seem to have steered away — or else I missed it — from the investment side of pension funds. Maybe that's not appropriate.

D. PEARCE: If the Chair is agreeable, I'll just give a brief background on the investments, and then I'll focus in on the handout, which is the performance of the investments.

The investment branch is part of the provincial treasury. Clearly we have one mandate: to professionally manage all the assets to the standards of prudence and fiduciary responsibility as outlined in the pension acts and the Financial Administration Act, to achieve the highest rate of return that we can within reasonable risk limits and at a reasonable cost.

The legislation that we are bound by is the Financial Administration Act, and the pension acts — the four statutory plans. Then there are two Crown corporations, B.C. Hydro and B.C. Rail, which have contractual plans.

John mentioned that he's responsible for eight plans. We do the investment for six of those plans.

THE CHAIR: So you do not do the investments for the Workers' Compensation Board...

D. PEARCE: The pension plan, no.

THE CHAIR: ...or for the MLAs' one — because there isn't any fund for that?

D. PEARCE: That's correct.

Going into some background to the investment on the pension side, until July of 1989 the investments were restricted to money-market and bond investments — Canadian denomination. In July of 1989 the Financial Administration Act was amended to allow for equities in real estate. In fact, we adopted the federal Pension Benefits Standards Act investment classes. Four of the pension plans have agreed to participate in diversification of their assets: B.C. Hydro, the teachers' pension plan, B.C. Rail and the college pension plan. The municipal and public service pension plans are still solely invested in bonds and the money market. I think they have no philosophical disagreement with the diversification. There are other issues, though, that they want to have addressed before they proceed with that.

THE CHAIR: John, who made the decision for the Teachers' Pension Fund?

J. COOK: It was an agreement with the teachers, the Minister of Finance and obviously the trustee.

THE CHAIR: Teachers represented by the BCTF?

D. PEARCE: Yes.

THE CHAIR: Okay.

J. COOK: In fact, I think that for some time they've been asking the government to diversify their pension plan, and it just occurred in 1989.

THE CHAIR: The B.C. School Trustees' Association was not involved? Or the teachers' superannuation board or whatever it's called, that I used to sit on years ago?

J. COOK: Well, the Teachers' Pension Board has no responsibility in that area. It's an appeal board, essentially, to deal with.... No, the discussions were between the minister, the trustee and the British Columbia Teachers' Federation.

THE CHAIR: Okay.

D. PEARCE: Each of the four statutory plans has, as John indicated, a basic account and an inflation account. The basic accounts total $13.6 billion, and the inflation account is $1.5 billion in assets. Over the last five years the inflation adjustment account has grown by about 17.9 percent and the basic accounts by about 13.2 percent per annum.

The strategy is, as I mentioned, to diversify the assets into a broad set of financial instruments. This protects the funds from volatility or differences in markets by not putting all their eggs in one type of basket. It's typical of Canadian pension plans to diversify into Canadian equities, international equities, real estate, mortgages and so forth. It will be the strategy of the treasury over time to diversify these assets into a broader range.

We started diversifying the four pension plans in 1990. It took us some time to get the structure in place to diversify. We use both internal resources — we have a professional staff of 29 people — and external fund managers for active Canadian equity or real estate, for instance.

Maybe I could turn to the performance, which is this handout, and just briefly recap it. The funds are measured by external measurement firms. There are really three benchmarks that we use. We measure against market indices such as the Scotia McLeod bond indices, treasury bills or the TSE 300. We also compare ourselves with the median private sector fund manager, and in that universe, there are over 120 fund managers that we compare ourselves with. Then there is the fund objective, which is CPI plus 3 percent. In the box in this handout, you can see the cumulative returns that are in excess of those benchmarks and the approximate dollar value that it represents.

The other factor that we are obviously cognizant of is the management fee, because we manage them collectively. There are economies of scale, and our fee structure is very low compared to other public sector pension plans, such as the Ontario municipal superannuation plan, or private sector plans. Of course, this all feeds into the end result of the value of the fund in more fees.

The graphs show the cumulative returns and the returns of all six plans over five years, compared to those various benchmarks. Maybe I could take questions and stop talking at this point.

THE CHAIR: The listing of the investments is in *Public Accounts*?

D. PEARCE: It's in *Public Accounts*. I can't recall the actual page number, but it is a listing by category. Obviously it doesn't list all the government of Canada bonds; it just has. . . .

THE CHAIR: And all the pension funds own units in the funds?

D. PEARCE: Actually, in the case of the bonds, because there is a history there, they are segregated and owned separately. But for all the other asset classes, it is thoroughly unitized; you are quite correct.

F. RANDALL: I just wanted to ask about U.S. funds. Are there any U.S. stocks held?

D. PEARCE: One fund has just started buying U.S. stock. I think in total we have about $15 million in U.S. stocks. We haven't diversified into the U.S. equity at this point. I think we'll be very cautious in that.

[10:00]

F. RANDALL: What's the percentage allowed now — U.S.? It has been increased, hasn't it?

D. PEARCE: For international investments it's 16 percent. It's increasing by 2 percent for the next two years, up to 20 percent. That's to diversify the assets.

F. RANDALL: There was an article in the paper here in the last few weeks about $40 million invested, from some fund, in real estate with the Bentalls. What fund was that?

D. PEARCE: That was the pension real estate pool. We have a portion of that $40 million.

F. RANDALL: The pension real estate pool. Is that a pool of these funds?

D. PEARCE: Yes, it is.

F. RANDALL: I see. Okay.

D. PEARCE: For real estate we run a unitized pool, and the participants all take a piece of it.

F. RANDALL: It's only the funds that have approved real estate investments.

D. PEARCE: That's correct.

F. RANDALL: Did you say it was four?

D. PEARCE: In real estate, actually, only two of them have approved at this point. There's one other that I guess will shortly be added to that.

THE CHAIR: George, can you direct me to the right page in *Public Accounts*? I found that the trust funds financial information is just a listing of all of the trust funds. It doesn't have a listing of the assets.

A. BARNARD: If you'll turn to page E93, Mr. Chairman, you'll find that the pooled investment portfolios are shown there. There is a breakdown of the investments starting on page E98.

K. JONES: Which book?

THE CHAIR: "Consolidated Reporting Entity."

Is it in the other set of accounts, or only in the consolidated. . . ?

A VOICE: For 1990-91?

THE CHAIR: Yes.

A. BARNARD: Yes, to that degree of detail.

F. RANDALL: Do any of the funds have any requirements, such as not buying stock in, say, tobacco companies or that kind of thing?

D. PEARCE: No, they don't.

F. RANDALL: It's just wide-open — invest in whatever you want.

D. PEARCE: Yes, within the fiduciary context.

THE CHAIR: I'm sorry, I'm getting a little deaf. I didn't hear the question.

F. RANDALL: There are a number of plans which have requirements that they not invest in alcohol or tobacco stocks or that kind of thing, but there are no such guidelines here.

THE CHAIR: Okay. Does anybody else have any further questions?

These funds were last actuarially valued in 1988 — a minor one. Since December 31, 1990 — in the past year, in 1991 — was the rate of return greater than the...? Or was the difference between the inflation in the salaries and the rate of return...? The rate of return was 17 point something, wasn't it? So we would anticipate that the unfunded liability may have taken a fairly nice drop this past....

J. COOK: Looking at that factor by itself, the answer would be yes.

THE CHAIR: John, could you just set out once more the way...the funds that go into the inflation account. You were talking about the excess rates of return from the pension funds of people currently receiving pensions.

J. COOK: Just to give you an idea of how that happens, in the public service case the portion of the asset that we attribute to the pensions in payment is about 50 percent of the asset. Just going back to the last valuation, the fund at that time was $3.1 billion, and the present value of the pensions in payment at that time was $1.5 billion.

THE CHAIR: So you didn't allocate to them any portion of the unfunded liability?

J. COOK: No. The promise that we've been making to these people is that their benefits will be paid. I don't think anybody has ever said anywhere that we're going to stop paying pensions at some time in the future. These plans are considered to be continuing plans, and until somebody says that they're not, we have to treat them that way. So we say that the liability for the pensioners is there; they're going to get their pensions. For that portion of the asset, approximately half of the asset, any interest in excess of 6.5 percent will be put into the account that is held for indexing purposes. If we were to earn.... I wouldn't use the 17 percent; the 17 percent that Doug is talking about is a market value rate. We would do our calculation based on the way in which we normally calculate the rate of return for the pension fund, and it's weighted for all of the investments that are held by the plan. It's more likely to be in the 11 percent range — somewhere between 10 and 11 percent. Let's say it's 11 percent. Then the difference between 11 and 6.5, which is 4.5 percent, would be applied to the $1.5 billion, or half of the asset, and that interest would be moved into the inflation account to be used for indexing purposes.

THE CHAIR: So you take that income stream and divide it.

J. COOK: Divide it. Just using 1991 as an example, the money going into the plan in the public service case.... There was $18 million in contributions from employees, $18 million in contributions from employers, and almost $67 million in investment income in the plan itself. Payments out were $3 million. Then there's the transfer taking place between the two accounts; there's money going one way on the excess interest transfer and money going the other way on the purchase of the benefit. The net result of that was that the fund actually increased in the year by $97 million after the benefits had been purchased. The reason for that is that inflation is now very low; since 1984 it has been below 6 percent, most often below 5 percent, and interest rates have been very high. There has been a lot of money transferred into purchase indexing through the excess interest transfer and the contributions, and little in comparison being paid out to purchase the benefits. In the public service case, at the end of 1991 there was over $535 million in the inflation adjustment account — more money in the inflation adjustment account than there was an unfunded liability on the basic side.

A. BARNARD: These figures appear on page E47 of the same volume we referred to before.

J. COOK: To put that number in perspective, in 1991 it cost just under $60 million to buy the indexing that was provided at January 1, 1991.

THE CHAIR: For the year or in total?

J. COOK: For the year. That's the present value of all the future payments related to that increase.

THE CHAIR: In total.

J. COOK: Yes.

THE CHAIR: You don't actually go out and buy an annuity to cover it.

J. COOK: No. We transfer the asset and the liability into the basic account, and it remains there. That number — again, it's an estimate of how much money we need to pay those pensions — is bound to be wrong, because it's based on assumptions.

THE CHAIR: Of course.

F. RANDALL: Just a couple of fast questions. Is there a board of trustees? I'm not too clear. Are you the trustee, or is there a board that makes. . . ?

J. COOK: On the statutory plans, public service does not have a trustee; for teachers, municipal and college, I am the sole trustee. B.C. Rail — I am the sole trustee. B.C. Hydro — I am the sole trustee. The Workers' Compensation Board — I am one of three trustees.

THE CHAIR: And he's bonded. [Laughter.]

F. RANDALL: I guess the question I wanted to ask was: how do the people who are the participants in the plan get any input into the plan?

J. COOK: In two ways. One is that on each of those plans there's either a consultative committee or a consultative council that has representatives from the plan members and the plan sponsors that I meet with on a quarterly basis; and secondly, on the investment side there's a committee called the investment advisory committee that has representation from our offices and from Finance and is chaired by an assistant deputy minister from the treasury branch.

F. RANDALL: So there is way for the participants on each plan to have some input into the plan.

J. COOK: That is the structured way. The other is, of course, that we will talk to and meet with anybody who wishes us to do so, and do that very often.

F. RANDALL: One last question. Who are the plans' actuaries?

J. COOK: The current actuaries are. . . . There are a number of actuaries: for public service, municipal, teachers, college and WCB the plan actuary is Eckler Partners Ltd. For B.C. Rail and B.C. Hydro the consulting actuary is Wm. M. Mercer Ltd.

THE CHAIR: If there's nothing more, gentlemen, we have reached our deadline, and we all have other commitments. I'm really most grateful to you, John and Doug, for coming this morning. John, we will be getting some more information from you, and I know Doug will welcome any phone calls from any members of the committee who might have some further questions that have come to mind. If there's nothing more, I will take a motion to adjourn. And I'll see you all next week at the same time — 8:45.

The committee adjourned at 10:13 a.m.

WEDNESDAY, APRIL 29, 1992

The committee met at 8:48 a.m.

THE CHAIR: We have an agenda before us. May I have a motion to approve it?

A VOICE: So moved.

Motion approved.

THE CHAIR: Thank you for coming back, John. We have your document, which we haven't read yet. So if we may, we'll just take a moment to get through it. That is the two-page sheet headed up "Briefing Note."

John, perhaps you could start off by talking about the amounts of the contributions that are being paid now in relation to the actuary's recommendations — i.e., the last part of the second page of your. . . .

J. COOK: We could start with the public service plan. It would be appropriate to concentrate on that plan and then move to the other plans later on during this discussion.

Starting with the public service plan, the contribution rates at the present time are 7 percent of pay for the employee and 9.5 percent of pay for the employer. Those rates are formula-integrated with the Canada Pension Plan, and so on. On earnings up to the YMPE under the Canada Pension Plan, the contributions are actually 1.5 percent less than the rates I've just given to you. So it becomes 5.5 percent up to the YMPE, and 7 percent in excess of the YMPE for the employee; 8 percent up to the YMPE, and 9.5 percent in excess of the YMPE for the employer.

Also, of those contributions, 1.25 percent on the employee's side and 1.25 percent on the employer's side goes immediately into the side fund that is set up for indexing. The remainder is used to purchase benefits for the participating employees who are either actively contributing to the plan or are already retired.

The actuary says that the combined contribution required from employee and employer in order to fund the benefits on the basis as described in the paper is 14.25 percent of pay. Currently, if you were to add up those rates I just gave you, they would come to 14 percent. So in the public service plan the contribution shortfall based on the funding policy is 0.25 percent of pay.

D. SCHRECK: That's 0.25 percent per employer and employee?

J. COOK: No, it's 0.25 percent short by whoever is to pay for it. It doesn't say who should pay it; it just says there should be 0.25 percent more of pay going into the pension plan.

THE CHAIR: John, has there always been a 2.5 percent differential between the amount paid by the employee and the amount paid by the employer?

J. COOK: No. That change took place in 1981 or 1982 — somewhere in that time period. Prior to that, the indexing arrangements were different, and so the way in which indexing was funded was different than the way it is funded today.

At that point in time, the contributions paid by employees were at the level of 7 percent, and they were matched by the government or by the employer at 7 percent. In addition to that, when an employee retired the government or the employer — as the case may be in the public service plan — was required to pay into the plan the difference between the commuted value of the pension that was being promised to that individual, less the sum of the employee and employer contributions that had already been paid into the pension fund. . .

THE CHAIR: Plus earnings.

J. COOK: . . .plus the interest on them. Essentially, what was happening under that funding arrangement prior to 1980 was that the benefits were being fully funded, exclusive of the indexing at the time that the individual retired.

THE CHAIR: This was a calculation at that point to have a pay-as-you-go plan rather than additional payments at the time of retirement.

J. COOK: I wouldn't categorize this as a pay-as-you-go plan. The decision back in 1981 was to change the funding methods and make it consistent across all four public sector pension plans, and that funding method is the one that's described in the paper. That was the decision made in 1981.

THE CHAIR: How does a 7 percent employee rate of payment for a defined-benefit plan, paid on the basis of the highest five years, compare in cost to ones in the private sector?

J. COOK: You can't just look at the employee contribution; you have to look at the total contribution in a comparison.

The question is: is it common in the private sector to have employees pay 7 percent of pay?

THE CHAIR: Yes.

J. COOK: The answer is no; it's not common for that to occur. Most often in private sector plans that are similar to ours there is little or no contribution. There are some that have contributions, but a lot of them that have benefits similar to ours do not require employee contributions. Our plan is not the common type of plan that you would see in the private sector.

THE CHAIR: Differences being?

J. COOK: I would suspect that if you're looking at the number of employers that have pension plans, most of the employer-sponsored pension plans are defined-contribution pension plans.

THE CHAIR: Money purchase?

J. COOK: Money-purchase arrangements. If you look at it based even on the number of employees that are covered under the plans, you'd probably find it more.... Once you take the public sector out, more employees are covered under defined-contribution or money-purchase plans than under defined-benefit pension plans.

The defined-benefit pension plan that ours is probably compared to the most frequently would be the type of plan that is available to the salaried staff of large corporations. You would see that quite commonly there.

F. RANDALL: What was the recommendation for that extra 0.25 percent? Was there a recommendation that it should be increased — in other words, add a quarter on, paid by the employee?

THE CHAIR: Not necessarily.

J. COOK: The actuary didn't make any recommendation with regard to the additional 0.25 percent. Because of the type of methodology that is used in any actuarial valuation, you can never precisely tell whether it's exactly 0.25 percent that is needed. What this information tells us is that, because in two successive valuations the contribution rate has gone up, it would appear, based on the experience of the pension plan, that more money is needed than what is currently going into the pension plan to continue the funding.

Having said that, the actuary would also be quite prepared to say that the benefit security of those individuals who are covered under the pension plan is not impaired by whether the 0.25 percent is met immediately or not. So it's a directional issue. Some of the issues that lead to the rate going up could be questioned, in the sense of: is that the right direction and the continuing direction, on a long-term basis, that that assumption is taking? For example, one of the assumptions that changes quite frequently is the assumption related to termination of employment.

[9:00]

As you can appreciate, the probability that a particular individual will terminate their employment prior to being eligible to receive a pension benefit is greater in times when the economy is good and lesser when the economy is bad. People tend to keep their jobs when the economy is bad; they tend to look for other jobs when the economy is good. Depending on what happens, the period of vesting will lead to different results in terms of the financial result for the pension plan.

The actuary would say that if this trend continues, you should change your contribution rates. We're talking about the public service plan that just has a 0.25 percent shortfall. Let me just flip quickly to the teachers' plan, where we're talking about a 1.6 percent shortfall. There the actuary would say very strongly that you should do something. He wouldn't say to you necessarily that you have to make the 1.6 percent change; but you should certainly be in the 1 to 1.25 percent range so that the shortfall has less impact on the financial results of the pension plan.

F. RANDALL: What's required to increase the contributions?

J. COOK: Legislative amendment. The contribution rates are established under the statute.

F. RANDALL: Do you have to get approval of the participants?

J. COOK: It would be wise if you're going to ask them to pay some of the contributions. But it's a legislative amendment, and legislative amendment can occur, as you know, just by the government deciding to do what it wishes to do.

F. RANDALL: Would you not normally increase the employee's share? They're less than the employer right now.

J. COOK: You talked about consultation. If you were to go to the employees and ask them that question, they would say: "No, the employer has promised us the benefits that are described in the pension plan; and therefore they should pay any unfunded costs that exist in that pension plan."

F. RANDALL: There are lot of organizations where the employees pay 8 percent to 10 percent into the pension.

J. COOK: That's true. You asked me what they would say. I'm telling you what they have told me.

F. RANDALL: It would seem to me that the amount being paid now is a little low compared to.... In the construction industry it runs 8 percent to 10 percent paid by the employee, in all the plans.

J. COOK: I understand what you're saying, and that may be valid. It's not what the employees would want, though.

F. RANDALL: I'm sure that the employees would say no. But if it's a matter that is urgent and requires attending to, I think we should look at it. I'm trying to find out whether there is a recommendation. Or is it just "leave it alone"?

J. COOK: I think it depends on the level of the contribution shortfall. As I said, in plans like the teachers' plan and the municipal superannuation plan, the actuary would be much more vocal in terms of saying you should do something.

D. SCHRECK: John, for the teachers' plan you gave 1.6 percent as the recommendation. On page 33 of the auditor general's report, the table shows 1.11 percent. Has the situation worsened?

J. COOK: A valuation has just been completed. I think I gave you the numbers last week on that. The 1.1 percent is now 1.6 percent..

D. SCHRECK: Have the numbers worsened from the point of view of the required increased contribution on any of the other plans, or is the teachers' plan unique that way?

J. COOK: No. It would be fair to say that in the three major public sector plans — the public service, the municipal and the teachers' — the trend has been for the shortfall to increase, as each valuation is done. Interestingly, that has occurred even though there have been changes in some of the economic assumptions, which are the major drivers, that would lead you to think the gap would be shortened rather than widened.

D. SCHRECK: Which is getting to my point: which assumption has been violated, or what is the prime driver of this widening of the required increase?

J. COOK: In my view the prime driver is basically in two areas: one is that pensioners are living significantly longer than what was anticipated when the rates were first established; and secondly, the hiring practices of public sector employers over the last ten years have changed, and they seem to be hiring older people.

THE CHAIR: And there's a greater cost to them.

J. COOK: The average age of new entrants to the plan, as borne out by experience, has increased over the last ten years.

D. SCHRECK: The way I interpret that statement is that the assumption of the defined-benefit plan — and this is a defined-benefit plan — for fully costing an individual's contribution over their working life cycle is based on a certain average age of entry, and that assumption of average age of entry is too low.

J. COOK: It's high — sorry — not too low.

THE CHAIR: Too low in the assumption, but too high in fact.

J. COOK: Okay, yes.

D. SCHRECK: People are coming in at a higher average age than in the assumption, and as a result there's an underfunding.

J. COOK: That's right.

THE CHAIR: We need to go out and hire some children to get it balanced.

D. SCHRECK: Does that also then imply something for human rights policy with respect to eliminating age discrimination in hiring and its impact on pension plan funding?

J. COOK: I'm not an expert in hiring practices. I'm not suggesting by what I'm saying that employers aren't hiring young people. What I am telling you is that the experience of the pension plan is such that those people who become plan members — and not every public sector employee becomes a plan member, because there are some eligibility tests — are typically older today than they were ten years ago.

B. JONES: I'm interested in the disparity between the additional contributions recommended by the actuary in the four different plans, the college pension plan recommendation being almost ten times that of the public service recommendation. I assume there is a variation in the benefits of those plans, and that may contribute to that. If that's the case, I'd like to know that.

Secondly, at the time when there are changes to the benefits, is actuarial advice given to suggest that there may be an additional contribution required?

J. COOK: The answer to the first question is that there is little difference in the benefits. There are some differences between the plans, but in the major plan provisions — such as the retirement benefits, for example, which is the major cost-driver in a plan — there's no difference between the four plans that you've just mentioned.

The difference that you see in the contribution rates suggested for each of those plans essentially means that the assumptions on the demographic side are different from plan to plan.

B. JONES: Is the contribution level essentially. . . ?

J. COOK: The probabilities of termination, of staying in the plan long enough to receive a pension, vary from plan to plan because of the types of individuals in the different plans. That's why, for example, when you look at the teachers' plan, it appears to be the most expensive, and it is, in the sense that more teachers end up with pensions than do public servants, municipal workers, hospital workers or college instructors.

B. JONES: A very dedicated group.

D. SCHRECK: Low turnover.

J. COOK: Well, whatever the reason for that is. But they're a profession. Usually the individual who chooses to be a teacher has chosen to do that for life; in other occupations that may not be the case. Certainly the experience bears that out. That's what leads to the difference in cost. It's the demographics of the group that are covered under the pension plan.

Your second question was on the actuarial costing.

B. JONES: My second question was based on the assumption that the benefits varied. Does the contribution level vary?

J. COOK: The contribution level for employees varies. In the teachers' plan and in the municipal plan it's 7.5 percent for the employee. In the public service and college plans, it's 7 percent.

THE CHAIR: Could you repeat those, John?

J. COOK: For public service and college, 7 percent, less the CPP integration formula; and 7.5 percent in teachers' and municipal.

THE CHAIR: Is the employer's side of the teachers' fund paid by the school boards or by the provincial government? Not that it really matters, but does it flow through and back to the other?

J. COOK: The answer to that question is yes and yes. The current practice is that the school boards pay the employer contributions to the pension plan, but, as you can appreciate, they receive their funding in order to pay those contributions from the provincial government.

THE CHAIR: Of course. Are those employer contributions 9.5 percent with adjustment for Canada Pension Plan?

J. COOK: No. If you want the employer contributions for the municipal plan, there's actually an individual employer contribution rate that is calculated for each employer based on the demographics of their own employees. But the average for the total plan is 7.2 percent, so the employers actually pay slightly less than the employees do to the municipal plan. The contribution rate in the teachers' plan right now is 10.2 percent. In the college pension plan, the employer contribution rate is 7 percent.

Now, to put that into its right perspective, when I talk to you about the public service plan, you take 1.25 percent off each of those rates for the indexing arrangements in the public service plan. For the other three plans, the matching amount is 1 percent going into the indexing account. More of the contributions ends up paying for pensions in those other plans.

The other question that you asked: is there an actuarial costing done whenever benefit improvements are considered? The answer to that is: yes, there is. The cost is determined in terms of how much more money is needed to fund the benefit over the working lifetime of the individuals who are covered under the pension plan — what's called the entry-age normal costs, as suggested in this paper — as well as identifying the amount of money needed to pay off the unfunded that is created because of that benefit change, because you're typically applying the benefit change retroactively. Therefore if you say, for example, that you're going to change your vesting from ten years to five years and it applies to everybody in there, on the day you make that rule change there's a whole new group of people who are all of a sudden vested who weren't vested the day before and haven't paid any money for that vesting, so an unfunded is created. We would determine what the ongoing payment is that is required to pay off that unfunded liability.

In the time that I've been the commissioner, we have never had a benefit improvement significant enough to cause a change in the contribution rates. In fact, I suspect, particularly if you talk to the plan members, there hasn't been a significant benefit improvement in the plan in the last 15 years, in their view.

DEPUTY CHAIR: John, we are expecting one, right? There is a change in the level of vesting down from ten to five.

J. COOK: There's the potential for that with the pension benefits standards legislation that was passed last year. As long as that continues to be effective from January 1, 1993, that would be the case. However, I've been advised that isn't taking place until January 1994. You may know more about that than I do.

DEPUTY CHAIR: It is under review, yes.

J. COOK: Whenever that happens, then, of course, our plans will be subject to the conditions established by that standards legislation. If there are changes required, they will necessarily have to be made.

DEPUTY CHAIR: I'd like to turn to page 2 of your briefing note here. You'll have to take me through it. The way I read this, we now have a level contribution method, the constant in that is the employer contribution, and fluctuations in contributions come from two other sources: the income of the plan and employee contributions.

J. COOK: Yes.

DEPUTY CHAIR: So if we were to increase now by 0.25 percent with this level contribution method — just in the public service plan — would that not mean that it would have to come out of the employee contribution?

J. COOK: That would be up to the government to determine who pays the additional contribution. The choice is there for it either to be an employee contribution, an employer contribution or a shared contribution. When the actuary is doing his report, he doesn't attribute the increased cost to one party or the other. He just makes an assumption — because it's easiest to do it this way — that any residual cost is identified as an employer cost. It's just in the methodology that the actuary uses. He would say, if you asked him, that if this 0.25 percent was to be paid for by the employees rather than the employer — because that is a choice that is available — the 0.25 percent would actually be larger than what it is; it might be 0.28 or 0.3 percent. The reason that it would be higher if the employees pay it rather than the employer is that some of that money will end up being refunded to terminated employees who are not vested. Therefore there has to be more going in to have the net effect that 0.25 percent ends up in the pension plan.

DEPUTY CHAIR: Does the level-contribution funding policy contribute in any way to determining the size of the unfunded liability?

J. COOK: Yes.

DEPUTY CHAIR: And therefore can be manipulated.

J. COOK: There are two things that the actuary does when he's calculating contribution rates. One is to determine what method he wishes to use in order to calculate it, and the method determines the pattern of the payments. It determines whether you pay all the money up front, at the end, or level it in between, or if you have it going up or going down. There are all sorts of patterns that he can choose from, and all sorts of methods that he can use.

[9:15]

Secondly, the assumptions he will use in doing the calculations determine the levels. You get very liberal with your assumptions, and the contribution requirements come down; you get very conservative with your assumptions, and the contribution requirements go up. So that's what the actuaries have at hand when they do evaluations. They look at the methods and the assumptions that they want to use.

If you go back to the first page of this, we talked more about the rationale behind the method that the actuary has chosen, which is a level-contribution method. The biggest issue there is the stability of contributions. The idea with a level method is that if your assumptions are bang on, your contributions are going to be level as a percentage of pay over time; they don't change.

The problem in our plans is that the experience has been different than the assumptions. That's not untypical. You hope that over time they sort of even out. We're finding that they're not. They're tending to go one way. Those are the two issues that I was talking to Mr. Schreck about in terms of people living longer and the average age of the typical new entrant to the pension plan being older. That's been on the move one way for ten years, and they have an effect on the contributions.

F. RANDALL: Do any of the plans have a disability pension at all, or are they all on LTD?

J. COOK: All of the plans have provisions related to disability. There are two provisions. One is if the employer has an LTD plan that has been approved under the pension plan. While they're on LTD, the individual continues to accrue service in the pension plan without making any contributions. Neither the employee nor the employer have to make contributions.

F. RANDALL: Neither party makes contributions?

J. COOK: No. It's valued in the contribution rates that are established for the plan. The benefit that they're entitled to at retirement is based on the highest average salary taken prior to the disability, and then it's indexed to retirement.

THE CHAIR: Indexed to retirement?

J. COOK: It's indexed in the post-retirement period, as any pension is indexed.

F. RANDALL: It's not taken on what it would have been currently? In effect, they go back to when they became disabled?

J. COOK: Yes.

THE CHAIR: But then they index it?

J. COOK: Yes, that's right. The highest average salary is taken from the pre-disability period — the five years prior to being disabled — and indexed from the date of disability to the date of retirement.

F. RANDALL: When does the disability stop?

J. COOK: Under that provision, they're on long-term disability outside the pension plan, and it stops whenever the long-term disability plan says that the benefits stop. To be approved, they typically have to have a coverage period for disability that at least takes the person to age 60 or 65.

F. RANDALL: Is that the pension cutoff as far as disability goes?

J. COOK: No, we haven't got to what the pension plan does. I'm just telling you what happens if the person has a long-term disability plan. It's whatever the long-term disability plan says. If the long-term disability plan says that benefits stop after five years, then this accrual that we've been talking about stops after five years. If it permits them to be on long-term disability until they're 65 or 60, then they continue to accrue service in the pension plan until that point in time.

The other provision in the pension plan is the ability to receive a disability pension. You can only apply for a disability pension if you are not covered under an LTD plan. So you can't get both. The disability pension is calculated as of the date of disability, converted to a joint-life-and-last-survivor pension if there's a spouse, and paid out to the plan member. They have to meet a test of disability, not only at the time the pension is initiated but whenever I say so after that. Depending on the type of disability, it may be as frequently as every year, or it may be accepted for the rest of their lifetime because the medical information is such that there is no hope for recovery.

F. RANDALL: Is the disability pension larger than the normal pension?

J. COOK: The normal pension when? At retirement?

F. RANDALL: Yes.

J. COOK: The answer to that would be no, because you would have more service accrued in your pension plan at normal retirement. It's bigger than the pension that you would be entitled to at the date of disability, because in most instances you wouldn't be entitled to a pension.

D. SCHRECK: I have two lines of questioning that I'd like to pursue. The first is fairly technical, and it is on the level-funding assumption. Is that the most common actuarial assumption for funding plans? What other common methods are in use?

J. COOK: I can't tell you whether it's the most common, because there isn't any information that I'm aware of where actuaries divulge the methods they use for calculating contribution rates under pension plans. It is not an uncommon method. We're not the only people who are using a level-contribution method, if that's more what you're asking for.

D. SCHRECK: If the method were to vary, and if it were to be something other than simply a way to avoid dealing with this problem, could a method be adopted that would be professionally recognized as acceptable?

J. COOK: Yes.

D. SCHRECK: Short of outright fudging with the numbers, within what's professionally acceptable and within common valuation methods, how much of this variance is due to which common and acceptable valuation methods, such that if you were using this method on a private plan, your liability insurer would not have to worry a whole lot that you've used this method? What's the range there? That's what I'm looking at.

J. COOK: I don't think you could say method A provides a result that's 10 percent different from method B. The best you could say is that it was plus or minus X percent between the methods, because sometimes different methods will give you the same result based on the data you have presented to you. In other instances, there will be major differences resulting from it. So it's not something that you can generalize about and say that a certain method will provide a better or worse result than another method will.

What you can say about different methods is that the methods determine the pattern. So if you want to pre-fund everything, you choose a method that says John Cook got hired today, and we know all the probabilities as to whether he will terminate, become disabled, retire early or retire at the normal retirement age. We can project his salary through time and the probability that he will receive a pension, so we need $1 million today to fund that. So we put $1 million in the pot on day one. That's one way to fund. It would appear to be expensive, but it maximizes the participation of interest in providing for the pension, because you've got all the money in it at the first time. But it's also expensive to do that.

At the other extreme, as a method, you can say that I'm not going to put a cent in. I don't know whether Cook's going to stay here long enough to be entitled to a pension, but what I'll promise to do if he does and we do have to pay is pay that when it occurs. So if I stay until 65 and I'm entitled to $1,000 a month, you start paying me $1,000 a month as long as I'm alive. You put no money away. That's also expensive, but that's the range.

You can see that we're looking at something in between, and there are a number of choices available. But the actuary is independent of us. We don't tell the actuary to use this method or these assumptions. We hire the actuary and say: "You've got to take into consideration the things that we're interested in" — and I've tried to list those on the front page of this briefing note — "such as benefit security."

We want to see a fund that is established and that money is being paid into, because the more money in the pension plan, the more secure the plan members will feel about their pension entitlement. In the case I just gave you, if you put $1 million away for my pension when I start to work, I will feel very secure about getting a pension. If you tell me the promise is that we will pay you if we've got money when you're retired, and I don't even know that you're going to be in business — if you're a business — I'm not going to feel very secure about that situation.

So benefit security is important to us; stability of contributions is important. We want to be sure that, as much as possible, the contribution rates are stabilized. We don't go from one valuation where the actuary comes in and says you need to put 1 percent more into the pension plan now because of the experience of the pension plan to the next valuation, where he comes back and says he overestimated that and this time it's 2 percent less, so you're all over the place in terms of where the contributions are.

The third thing is that we believe you should allocate the cost to the people who are accruing the benefits — and this method does that. So if I'm earning a benefit, there should be a cost attributed to the employer in the year that I earned the benefit that somewhat pays for the benefit I've earned. That's what this method does.

Other methods do that. One of them that quite typically is talked about now and is espoused by the CICA in terms of financial reporting — not the funding, but the financial reporting of pension plans for employers — is called the accrued benefit cost method. It has a different pattern. At the last valuation that we did in the public service plan, for the office of the comptroller general, the answer that we had for an unfunded liability was $438 million. The answer they got using the accrued benefit method was $441 million. Don't jump to the conclusion that those methods will always give results that are that close; that's a fluke. I told them that: don't come to the conclusion that you can use our actuarial methods for determining what the accrued benefit cost is, because it won't always be that close.

D. SCHRECK: The relevance of all this is to my second line of questioning. As it turns out, all of my line of questioning of last week is really summed up in one sentence on page 32 of the auditor general's report, where it says: "The teachers' and municipal plans are of particular concern because there is no statutory guarantee provision should the plans fail."

The relevance of that to the line of questioning of my colleagues on these additional required contribution levels and who should have to pay is that in the case of the college and the public service plans, if the increased contribution is not met, the government owns the liability under the current statute. In the municipal and teachers' plans, there may be a moral responsibility, but there is no current statutory responsibility for anyone to make good on that unfunded liability. So in the one case of the 0.25 percent shortfall,

if the adjustment is not made under the current statute, the employer, as it were, is still responsible. In the teachers' case and in the municipal case, if the required increase is not made, it remains a mounting problem, with fingers pointing in opposite directions as to who really has to bear the consequences of that. It strikes me that this is increasingly serious, when the recommended increase for additional funding is almost equal to the current inflation rate.

If, hypothetically, there were an adjustment in compensation equal to the current inflation rate, and all of that adjustment were put to pension plan contributions, all it would do is meet the unfunded liability and result in no trade-off. That strikes me as a severe problem, inherited by this government from the past government, which has to be resolved. When the teachers and the beneficiaries of the municipal plan look at who's going to clean up this problem, the question will of course be asked: "How did we get into this mess?"

[9:30]

Given the severe problem in the teachers' plan and the municipal plan relative to the current level of inflation, relative to ambiguity as to who owns the deficit and relative to the very high recommended increase in contribution level, when we talk to the participants and they say they should not have to bear it because this problem was created by the past administrators of the plan, my question is: what is your advice? How badly did the past administrators of the plan muck up to create this problem?

THE CHAIR: You can take the political side out of that, but still answer it, please.

J. COOK: I guess I would disagree in one respect with the conclusion that you have taken from the auditor general's report. Other than the semantics — the fact that the public service and college plans appear to have provisions that say there's a guarantee — I don't think that guarantee is more or less strong than the non-guarantee in the teachers' and municipal plans. What we're dealing with is legislation, and even though there is a guarantee in the public service and college plans, the legislators — you folks — can choose to say: "If there's a shortfall, we'll increase employee contribution rates." So in the end, it doesn't necessarily mean that the employer in fact is taking on that additional responsibility. I believe that the plan members in the teachers' pension plan and in the municipal pension plan understand that that guarantee is there.

D. SCHRECK: My concern is whether their understanding and the truth are the same, because what I hear are three different answers. I bear no official any disrespect; what I'm trying to do is to straighten out professional hats and different professional advice. I certainly found in a former life that my auditor and my actuary gave me different opinions all the time. What I see is different professional advice on this matter from the superannuation commissioner, the auditor general and the acting comptroller general. All I want to do at this stage is clarify precisely whether that difference does in fact exist.

I would characterize the difference as being that your opinion is that at the very least there's a moral obligation and in past practices no one has ever lost a benefit. My difficulty is that I've never been able to cash a cheque on the basis of morality; it goes to legality.

I see the auditor general saying, in the sentence that I quoted from the report, that there's a problem. To my question last week to the comptroller general, I got a clear answer that in the opinion of the acting comptroller general, the only statutory obligation was for the college plan and the public service plan.

The essence of this difference of professional opinion, in my opinion, is a matter of major public financial concern as to how this problem is going to be addressed. It is acute when you measure inflation relative to the required contribution level to deal with the underfunding.

J. COOK: Let me tell you what the guarantee in the public service plan is. Rather than reading the auditor general's rules, let's read what the statute says about the guarantee. The statute says that the guarantee in that plan is that if there is no money in the pension plan to pay benefits — i.e., if we lose $3.5 billion of funds — the government will pay those benefits out of consolidated revenue. That says nothing about the 0.25 percent shortfall.

THE CHAIR: Monthly.

J. COOK: Whatever — as long as there's no money in the pension fund.

THE CHAIR: What I mean is monthly rather than putting the money into the fund.

K. JONES: Yes. It will just meet benefit requirements.

D. SCHRECK: John, that's with respect to which plan?

J. COOK: Public service.

D. SCHRECK: Okay. I have not questioned that at all. My understanding, from the questioning we've been pursuing, is that there is not a parallel provision in the teachers' or municipal superannuation plans. Is that correct?

J. COOK: I would suggest to you, very respectfully, that long before this occurs there will be large group of people on your doorstep talking about the pension plan.

D. SCHRECK: It's with no disrespect.... I'm not trying to talk about the political process here, but the fact that.... Maybe I am talking about the political process, because, politically, former administrations left a major loophole here. If you were running a private corporation in which you had two significant groups of employees with major unfunded pension liabilities, and with one you had an inescapable contractual obligation to pay, and with the other they said it's a moral

obligation but you don't have to pay, I know what the private corporation would do.

In this case I think that we at least have to clarify what we are doing, and determine precisely if it is necessary to introduce legislation or if we can continue to go forward on a moral obligation. Given the nature of this massive problem, how did we get into it?

J. COOK: I think what is going to happen is that there will be a debate over this issue in the next while. It has taken place in other jurisdictions in terms of whose money is really in the pension plan and who should have the responsibility for seeing that it's properly managed. That may happen here, but I can't predict what the future will hold, because those deliberations haven't taken place at this point in time.

Also, you have to be careful when you talk about private sector concerns in terms of pensions plans and public sector concerns. One of the basic philosophical differences, when we look at the funding of our public sector plans — at least historically, when we've looked at the plans — is that it's anticipated that the government will always be there. When you're in a private sector organization and are participating in a private sector plan you can't come to that same conclusion, and certainly history would say that can't be the case. A lot of the big problems for private sector pension plans have occurred because the private sector employer has gone bankrupt. There is a continuity that exists in the public sector. The policy that has been established for these public sector pension plans, at least over the last ten years, has taken into consideration the fact that it's anticipated that government will always be here.

D. SCHRECK: I was discussing this problem with a private actuarial firm last week in connection with a constituent whose private pension is being cut in half because the plan had an unfunded liability and the company went belly-up. I was pursuing the policy options — can we generalize this to government or is it true that plans in government...? Whether there's a legal obligation or not, there's this moral obligation that will go on forever. The opinion I received from that actuary was that they have to be treated the same as a private plan, because even if government is a going concern, legislation and policy changes, and what might be a defined-benefit plan today could become a defined-contribution plan tomorrow, with someone having to deal with the consequences of that major policy change. If the plan participants believe that a moral obligation is the same as a legal obligation, and yet someone at some point has to bite the bullet for $2 billion in combined unfunded liability, then nobody's going to say: "Thank you for the $2 billion." Yet that's what's being asked.

THE CHAIR: When you use the term "defined contribution" does that mean money purchase?

D. SCHRECK: Yes.

G. MORFITT: There was just a couple of small bits of information that I wanted to throw out. You'll see from the material in my report that the college plan is not guaranteed in the same manner as the public service plan. There has to be an order-in-council to make the guarantee effective; whereas, as John pointed out, in the public service plan legislation, any shortfall comes out of consolidated revenue funds, and that's automatic in legislation. With the college plan, there has to be an overt act on the part of government to pass an order-in-council to cover any shortfall. So there's a slight difference there.

The other point I would like to make — and perhaps John knows more about this than I do — is that the legislation covering the teachers' pension plan used to have a provision in it that stated that the government stood behind the plan as a guarantor. When the plan was amended some years ago, that was removed. So there was an overt action on the part of legislators at that point to remove the guarantee, and I don't know the circumstances surrounding that.

K. JONES: I just want to change the direction of this a little bit, and that's to look at the basis on which these calculations are done. Could you tell us what actuarial calculations were done of the planned future size of the workforce or of the employee benefit group, and what was the planned income basis?

J. COOK: Is your question dealing just with the funding aspect? I'm not exactly clear as to what you're asking. For example, I can tell you that at the last valuation of the pension plan the total liabilities added up to just over $5.4 billion. Those liabilities can be divided as follows: $1.5 billion is the liability for those pensions that are already in payment, exclusive of the indexing, and I can tell you how many people are included in that number; $3.7 billion of that liability has to do with the liability attributed to the current contributors to the pension plan — that's benefits they have earned to the date of the valuation in 1990 and benefits they will earn subsequent to that date, to the date that they leave the plan.

K. JONES: Is there an assumption that the size of the unit will be static, that it will not be diminished?

J. COOK: The basic assumption is yes. The assumption is that the group will be about the same size.

THE CHAIR: You only deal with the people who are on the plan right now; you don't deal with people who...?

J. COOK: I think Mr. Jones is asking about whether we were assuming that there would be more people participating in the plan — more people working for government in the future.

K. JONES: If you're working with level-contribution funding, you must look at that, musn't you?

J. COOK: Well, no. It's somewhat independent, because it's just saying that if you have people coming into the plan, you determine what their average age is. It doesn't matter whether you get one new person or

100,000 new people: it's going to be the same as long as their profile meets the general profile that you have for the plan.

K. JONES: If your plan is going to be expanding at 10 percent a year, you're going to have to have these contributions coming in at a much higher rate for a longer-term period, aren't you?

J. COOK: No, not at a higher rate; the rate will be the same. You will have more money coming in, because you've got more people covered and more salary being covered. But the rate itself will be the same, as long as the profile of those new entrants meets the profile that was used when you established the rate.

THE CHAIR: Can I put it in different terms, to maybe sort it out in my own mind?

J. COOK: Sure.

THE CHAIR: If you're paying 16.5 percent each — so much from the employer and so much from the employee — for so many years to provide a pension at this point, when the benefit doesn't change a great deal because of the length of service, it makes a dramatic amount of difference how long they're in the plan and at what age they come in. So you can see that's going to be the big thing. What is the length of service, John, that 16.5 percent pays them the benefit?

[9:45]

J. COOK: I don't think I have the average service.

Just to get back to the question about the costing, when we did our valuation in March of '88, the average age of the new entrant — if the person was a male — was 33.1 years. Three years later, in March of '90, the average age was 34.8, so it had gone up by 1.7 years in that three-year period. That was the trend I was talking about earlier. It's similar on the female side: it went from 32.6 to 34.2. So again, the trend has been for the average age to increase.

To put that in the context of your question, if all the males who come in during the next valuation period are aged 34.8 on average, then the contribution rates — if all the other assumptions are correct — will be sufficient to pay for their benefits over their working lifetime. It won't matter whether there's just one whose age is 34.8 or 100 whose average age is 34.8. The problem will occur if their average age is 36. Then it means we're likely not going to have enough money going into the plan. The other side that would be advantageous to us would be if their average age was 33; we would see an improvement, because we would be getting more money coming in over their working lifetime.

K. JONES: So based on that, there would be a great benefit to giving early retirement and having the older employee taken off and thereby lowering the average age?

J. COOK: Well, not necessarily.

DEPUTY CHAIR: Only if they had young people coming in.

J. COOK: There are assumptions about how many people will retire in a year, and again, if more people retire than you assume are going to retire, then it's more costly, because you're starting the benefit payment earlier. So it's not quite that simple, but it has been the basis for some decisions that have made with regard to early retirement. You're right: when you take a higher-paid older worker with long service and replace them with a lower-paid younger worker with no service, maybe on balance that is advantageous as far as the pension plan is concerned.

THE CHAIR: When John gave us the number of $1.5 billion for pensions in payment now and $3.7 billion for the people who are currently employed — the liability — if you had an early retirement plan, you would move amounts from the $3.7 billion to the $1.5 billion. I would be fairly certain that more money would have to go into the pensions in the payment category than would be coming off the liability for the current employees. You would increase the liability dramatically. Is that not true, John?

J. COOK: Yes.

K. JONES: What would be the impact of mechanization? If we were to have a major mechanization of our operations that would downsize any of these units quite drastically, how would that impact on the ability to pay?

J. COOK: The answer to that would depend on which people were affected, and what benefit entitlements the affected people would have. I would think that if the people who were affected were the older workers, that would likely increase the cost of the pension plan. If the people who were affected were younger workers, it would likely decrease the cost. But that's a really broad generalization, and I'd like you to be careful with where you jump from that conclusion.

K. JONES: And the reason being that — if it was younger workers — you would have just a pay-out rather than a pension?

J. COOK: Yes, just a refund of contributions.

K. JONES: For the older worker, you would be expected to make the pension contribution?

J. COOK: Yes, and likely starting at an earlier date on average than you had anticipated.

THE CHAIR: How do contributions vest? Ten years, did you say?

J. COOK: Right now it's ten years.

THE CHAIR: So if people were less than ten, that would make a dramatic difference too.

J. COOK: Well, the other thing — and that's where I want to be careful — is that if you're talking about the sort of situation you were describing, it would be likely that a lot of the people who would be terminated would not even be in the pension plan. That's typically where they're clustered. People who are affected by computer systems taking over are typically on the low end of the wage scale when you replace people.

K. JONES: Those people don't have that benefit?

J. COOK: Well, aside from the vesting issue, there's also the issue of just being a participant in the pension plan. Not every public sector employee is a member of the pension plan.

For example, in the public service plan, if you're hired as an auxiliary employee — a temporary employee — you're not a member of the pension plan until you meet a test that says you've been employed for one year over a two-year period. So there's a period of time when you're not participating.

In the situation you're describing, a lot of those people might be affected by the change in employment practice. They would have no effect at all on the pension plan, because they're not in it.

K. JONES: Just to carry that one step further, if we were to do in government the same as major business is doing today, which is to flatten the structure and take out the middle management people, what impact would that have on this? That's just letting them go, not pensions.

J. COOK: If you're talking about people who would be entitled to a pension, you're likely increasing the cost under your plan. If you're not talking about that group and talking about non-vested people, you'd likely decrease the cost.

K. JONES: We're talking about age 55 for retirement — those eligible for pensions?

J. COOK: No, I'm just talking about people entitled to a pension who had been participating in the plan for more than ten years.

The other issue that should be identified when you're talking about downsizing and where there would be a major impact at some point in time would be the ability to provide indexing from the pension plan. There is an intergenerational transfer that takes place with regard to indexing; people currently working are paying for the indexing provided to retired people. If you make that base much smaller, there's going to be less money going into the account set aside for indexing.

DEPUTY CHAIR: The point to be taken from all of this is that labour market policy is directly related to impact on pensions — for us, as a policy tool in government. The issue that occurs to me in terms of labour market policy is those two factors in the increase in workforce: women and this bulge — most of us in this room are baby-boomers. Is there still a differential in actuarial assessments between men and women?

J. COOK: Yes.

DEPUTY CHAIR: Is that legitimate? All the predictions from labour market policy people are that the increase in the workforce will come from women. And then what about the baby-boomer effect?

J. COOK: I believe that, at least statistically, there is a difference between men and women in terms of longevity. That is proven in just about any mortality table. As far as the pension plan is concerned, that is taken into account by the distribution in the plan between male and female. So part of the answer to your question is that if the female component becomes a greater component within the pension plan — just looking at it from that perspective alone, everything else being equal — that should increase the cost of your pension program.

DEPUTY CHAIR: Do your actuarial people take into account the predictions that this will occur?

J. COOK: They review that every time they do a valuation. That's one of the things that they have to look at. They're not about to jump on a bandwagon and say — I don't know what the number is today, but let's say it's fifty-fifty today in the workforce: "Oh well, because of what you've just talked about, down the road that's going to be 40 percent male and 60 percent female; therefore we should change our assumptions." Actuaries, when they're looking at any of the assumptions, will look backward more often than forward. They're basing their assessment on the experience of the plan — what is happening. They're looking for the trends that you're talking about, so if that's something that starts to come out, they may give that more credit when they're establishing the contribution rates. But they're looking for trends, knowing that what they're trying to do is provide a piece of information to the plan participants that has to take into account events that will take place 60 to 80 years from now. That's the extreme. That's not to discount that the more major events are the more current ones; but there will also be events 80 years from now that should have been paid for today. There are people in the plan who will still be in the plan 80 years from now.

DEPUTY CHAIR: And there will be a huge bulge that will be in the plan 20. . . .

J. COOK: Not many. I'm not trying to overemphasize that, but it's just to show you that this is the range they have to consider. There isn't overemphasis given to the current, because they're more concerned about what's happening five, ten, 15, 20 years from now.

DEPUTY CHAIR: Okay. The other issue of import in this matter is the fact that our Peat Marwick special audit shows that 53 percent of our expenditures go to public sector wages. I know everybody's not a participant, but if you're talking about 16.5 percent total contribution of about 53 percent of our expenditures, that's a huge pot of money. I know the labour movement's been trying to grapple with that in a very

peripheral way. Is there a national review of unfunded pension liability in the public sector? I know that in the private sector it's become a matter of business, but in the public sector the unfunded liability or surplus, or contribution to the national debt that's unrecognized. . . .

J. COOK: A national review isn't taking place, but probably within each jurisdiction — at least in the major jurisdictions — over the last four to five years, it has become more a matter of interest for both the participants in the plan and for the plan sponsors, the various government entities, to start to look at these matters. We're starting to see resolutions of some of these issues related to pension plans in some other jurisdictions, but the resolutions are very expensive. Just recently, about a year ago, the Ontario government agreed to pay off a $4.5 billion unfunded liability in its teachers' pension plan. In doing so — there were some other parts to the agreement — they determined that for the future both the teachers and the government would share equally in the cost of providing the pension benefits. So aside from paying off this $4.5 billion over, I think, a 40- or 45-year period, the teachers and the government are both paying 9 percent of pay into the pension plan to fund current service benefits. That sort of thing is starting to happen, and I could name some other jurisdictions that are starting to do the same thing.

Before that happened, our B.C. public sector plans were probably the best funded of any public sector pension funds in Canada. With the changes that have started to take place in the last couple of years, we're still up in the top three, but we're starting to see things happen in other jurisdictions where recognition of that particular problem is being dealt with. I think we'll see the same sort of thing here.

With the debate we're having here, this is the first time in my time as the superannuation commissioner that I've talked about this issue with anybody other than the auditor general. I think this is encouraging.

DEPUTY CHAIR: Can you give us an estimate of other jurisdictions accounting for the unfunded liability as part of their debt? We don't.

J. COOK: We do and we don't. When the bond rating agencies come here and determine what the bond rating is going to be for the province, they take into account not just what's in the financial reports but also the unfunded liabilities under the pension plans. They always have done that, and they're probably the major determiner of what the financial position of the province is.

I think the question was: what happens in other jurisdictions? I think it's increasingly becoming part of the financial record. But I think the comptroller general can better answer in terms of which jurisdictions have moved on that issue and which ones haven't. I do know that some have and some have not.

F. RANDALL: Are we going to deal today with the report of the auditor general, to get a briefing on what the impact of each one of these recommendations is?

[10:00]

N. LORTIE: I guess that's where I was sort of heading as a matter of process. I guess it's nice that you're able to talk to somebody about this, but I think we're going to have to make some decisions. I think we're probably going to have make the decisions on a plan-by-plan basis, because there seems to be at least the two and the two: the public service and the college are probably the same kind of situation; and the teachers' and the municipal are probably in another category.

Do we make that decision here? I want to know what the process is. Do we make a recommendation as a committee to the Legislature or to the. . . ?

J. COOK: Are you talking about the qualification on the financial statements?

N. LORTIE: Yes.

J. COOK: I have no knowledge of that. I haven't been talking about that at all.

N. LORTIE: If we wanted to address the issue of the unfunded liability, say, in the teachers' pension plan, what would the process be to start the negotiations with the teachers about who pays and how much each one pays?

J. COOK: I talk to the teachers on a quarterly basis, and I think we pretty well know what the situation is there.

I think the government has some decisions to make vis-à-vis their public sector pension plans, and I'm aware that there's some work that is being done. I don't know what the end result of that will be, but there's a process that has been started.

N. LORTIE: Do you know where this committee fits in that system?

J. COOK: I'm sorry, I can't answer that. I don't know.

THE CHAIR: I would presume that it's appropriate for this committee to arrive at a consensus and to make recommendations to. . . . Who do we make the recommendations to? The House?

C. JAMES: The Legislature.

A. BARNARD: Just in response to Ms. MacPhail's question, as far as we are aware at the moment the federal government have booked their pension liability as a direct liability of the government. Quebec has done this to a certain extent, though I believe not fully. Other jurisdictions are looking at it, and the auditors general across the country have, I think, reserved or qualified their opinions on several financial statements on the basis of governments not booking it.

DEPUTY CHAIR: Thank you.

G. MORFITT: Just a bit of an update on that. We received the Newfoundland financial statements recently, and they've booked theirs now as well. They've booked $1.9 billion.

THE CHAIR: The liability and the increase in the cost that was not recognized for the current year?

G. MORFITT: Yes, I believe that's true.

THE CHAIR: Both?

G. MORFITT: Certainly they've booked the $1.9 billion on the balance sheet as the accumulated unfunded liability. I believe also that the revenue and expenditure statement would reflect the change in the year, but I'm not certain of the latter.

B. JONES: Just in response to Norm, clearly the Public Accounts Committee can make any recommendations it so chooses in its report to the Legislature, and certainly these ones are appropriate too. But the superannuation commissioner, in his conversations here and his conversations with a wide variety of other sources, comes to make recommendations to the Government Services minister, and that's the probably the more significant route as far as decision-making is concerned, I would think.

THE CHAIR: In the last ten minutes, George, could you take over leadership of the discussion?

G. MORFITT: For the benefit of the committee, I've produced this two-page summary of the issues raised in my report of January of this year, to assist the committee in deciding what it might want to do on each of the issues.

The first one shown is this question of the fact that there is an unfunded pension liability in the realm of $440 million for the public service plan which is not recorded in the financial statements of the province. It is the issue in respect of which I have issued a qualification in my auditor's opinion. It would perhaps be useful to hear from the acting comptroller general on that issue, as to whether there are some prospects for that being included in the coming financial statements — or if there is a recommendation that might come from this committee on that issue.

The second matter is the one that we've been addressing today with John's comments, and that is whether or not the committee wishes to make a recommendation that the government should take a serious look at this question of the contribution levels of the various funds. On that issue I think it's fair to say that the government has to determine the direction. But this committee could certainly be supportive of some action being taken.

The third one is inflation-indexing. The question relating to that, of course, is that people will only be paid what is in the particular inflation account for each of the plans. Our suggestion is that plan members should be advised on a regular basis as to the extent to which they can expect inflation to be paid through their pension benefits. John may have some comments as to just what is being done in that regard. I don't know whether the committee will want to emphasize that issue or not.

In the first one on the second page, we've noted that there have to be some changes made to the content and format of the pension plan financial statements in order to comply with CICA-recommended standards. We've also noted that the commission is currently preparing statements on that basis. If John can speak to that, it may be an issue that doesn't have to be dealt with by this committee as a result of the action currently taking place.

Similarly on the last item, last week we heard some discussion on whether or not there should be an evaluation of the unfunded liability, if there is one, for MLA pensions. Again, if we could hear a little more on that, the committee can decide just what it would like to do on that issue.

From my perspective the major one would be the first matter shown here.

THE CHAIR: George, I must admit that I'm more concerned with the fact that we're not properly recording our expenses on an accrual basis for the year than I am with the fact that the liability isn't included — because it is in your footnote, and anyone can add it up.

If an actuarial valuation is only made every. . . . Is it three years?

J. COOK: The statutes call for them at least every five years; our practice has been to do them every three years.

THE CHAIR: If there's an actuarial valuation only every third year, how are we going to deal with determining, number one, the amount of the liability and, number two, the correct amount to show as expenditures for the year?

G. MORFITT: I think that can be done. But perhaps Alan can answer.

A. BARNARD: Addressing the whole question, as Mr. Morfitt has noted in his report, management within the government actually agrees with the recommendation that the government should be booking this unfunded liability.

However, there are a couple of things in the recommendations made by the Canadian Institute of Chartered Accountants with respect to this which are not yet resolved. The major one is that the unfunded liability should be calculated on management's assumptions for things like interest rates, future inflation, demographics and so on. Currently we have been relying entirely on the actuary's assumptions. The unfunded liability can change very dramatically with some fairly minor changes to some of these assumptions, as John has already pointed out. We have not yet looked at management's actuarial assumptions. If we were to book the unfunded liability in the upcoming public accounts, for example, we would probably have to assume that the actuary's assumptions were indeed the government's assumptions. That's one of the issues.

With respect to the ongoing cost, the recommendations made for accounting for these pensions would require us to record as an expense of the year, in essence, two things: an imputed rate of interest on the unfunded liability and the changes in benefits earned during that year. For the second of those calculations — again, because the unfunded liability is only calculated every three years — we would have to bring that cost in. But in the last two valuations — I believe I'm right — the unfunded liability has been decreasing, not increasing. So the current funding that is going into the plan and being recorded as an expense would appear to be sufficient to record the expense for the year.

THE CHAIR: We've virtually got to the end of our time. I would presume that the way the committee would like to handle this now is that we come back with a little more definition from ourselves as to what we think we should do about the report we would write and the report we would make to the Legislature.

DEPUTY CHAIR: I agree. I think that the various parties should take it away. We'll decide among ourselves how we wish to proceed, and we will report back next week.

THE CHAIR: We will need some help, I think, from all the people that are experts in doing this. Who is in a position where it would be appropriate for you to help us develop recommendations? Certainly I would presume the auditor general is. Is the commissioner of pensions?

D. SCHRECK: As Barry pointed out a few moments ago, each of the people here have their own existing reporting relationships, either to the Minister of Government Services, the Treasury Board or the Legislature, as the case may be. The opportunity presented to this committee is unique, in that it has the opportunity to provide, in our collective wisdom, some sort of synthesis of what always is a difference of opinion between these three professions. We should seize that opportunity rather than interfere with the existing reporting relationships.

THE CHAIR: Of course, we need to have a message come from the Public Accounts Committee, which is a non-partisan group of MLAs.

D. SCHRECK: Right.

THE CHAIR: If we could all give this matter some thought, so that we can come back next week and try and get some definition of where we're standing, that would be good.

There's a second thing I'd ask you to do in the following week. You do have on your desks a list of the status of business. Perhaps you would look at it and prioritize it. We're going to be limited in our time, but it would be nice to deal with the items that the members of the committee think are the critical ones. Could you please come with some thoughts on the sequence you would like to deal with these items? Also, add any items or subjects that you wish to add to the list. With that, if there is nothing more, I will take a motion to adjourn.

The committee adjourned at 10:14 a.m.

WEDNESDAY, MAY 6, 1992

The committee met at 8:57 a.m.

THE CHAIR: The first item on the agenda that we don't have — and I'd like you to approve it — is a presentation from the auditor general. We'll deal with that first, because people have planes to catch.

Motion approved.

G. MORFITT: A couple of weeks ago I circulated a binder of information dealing with Crown corporation accountability to all the committee members. What I'd like to do this morning is provide you with an overview of that material through the use of a short video. It will give you a good feel for what we've come up with.

Before that starts, I'd just like to quickly say, as I've said on other occasions, that a government, in my view and I hope in the view of most people, is made up of a combination of central government, which is all of the ministries and offices, and all of the entities floating around central government, if you want to term it that way — the Crown corporations, societies, foundations, commissions, etc. We decided that it was important for someone — we decided it was ourselves — to look into this whole question of the interrelationship between Crown corporations — being the largest group, with the largest assets and liabilities outside of central government — and the rest of government. In 1989 we undertook a study of the accountability issue between Crown corporations and central government.

[9:00]

As I've said on a previous occasion, when the Financial Administration Act was put into place, no strong accountability link was put into that act for Crown corporations. One thing the committee is going to have to decide is how they're going to tackle this issue once they've reviewed this information. So I will leave that to your own debate.

Having said that, I have with me this morning Errol Price, the principal within our office who was in charge of this work. It was quite a comprehensive piece of work on our part, and I'll leave it to Errol to lead us through.

E. PRICE: Crown corporations operate in a different environment than private sector corporations; therefore we believe that different information needs to be recorded. The performance of private sector corporations is usually judged by their profitability, and other issues are important for Crown corporations. They usually have a mix of public policy and financial objectives. They're all funded directly or indirectly by public money, and most of the Crown corporations operate either in a monopoly situation or at least in a protected-market situation. All of these factors mean that legislators need to know more about each corporation's mandate, objectives and intended activities. They also need to be able to form their own assessments about each corporation's performance in relation to its objectives and its management of public resources. This can only partially be done through annual financial statements.

We set out to assess whether the Crown corporations were telling the Legislative Assembly enough about their affairs. We considered whether the corporations were providing appropriate information about what they intended to achieve and what they have actually achieved. We reviewed accountability reporting relationships for British Columbia's major Crown corporations, and we compared them to other jurisdictions in Canada and to some Commonwealth countries, primarily the U.K., Australia and New Zealand. During the work, we looked at reports tabled in the Legislature, and we talked to various ministers, Members of the Legislative Assembly and senior officers of the Crown corporations. We focused on the information flowing between the Crown corporations and the Legislative Assembly; we did not look at the relationships and information flowing between the government and the Crown corporations. We were very interested in the public accountability aspect. I should stress that this study was actually undertaken almost three years ago, and we've not performed any specific update to the work, but just from general observation, we believe that our comments remain valid at this time.

Our conclusion was that some Crown corporations were moving towards good accountability reporting. They were aware of the issues, and they were interested in finding better ways to provide good reporting. For example, in our report we mentioned the good information provided by B.C. Hydro through its corporate business plan and its recent annual reports. Generally, however, we found that the corporations were not providing enough information about what they intended to achieve. This isn't particularly surprising, as there's no real requirement for them to provide such information.

Reporting on actual performance was somewhat better but tended to focus on historical financial information rather than the extent to which intended results had actually been achieved. When non-financial information was included, it was often presented in an unsystematic way, which made it difficult to interpret and difficult to really assess how well the corporations were moving towards meeting their objectives.

We believe there is a need for a comprehensive accountability reporting framework to identify the nature, extent and timing of the information to be reported to the Legislative Assembly. This framework should require future-oriented as well as historical information, and we believe it should require operational information as well as financial information. The framework should be supported by legislation, and the legislation should then be supplemented by more specific government-issued guidelines. I might just add that these recommendations were endorsed quite strongly by the recent independent financial review.

As far as future-oriented information is concerned, we believe that each Crown corporation should be required to provide an annual statement of corporate intent to the Legislative Assembly. This statement would include summary information about each corporation's mission, its objectives and key performance targets, its major planned activities and its financial plans.

All of the annual reports that we reviewed during the course of our work did contain some of the basic elements of good accountability reporting. For example, they all included financial statements, and they all had a president's message or similar overview. But the performance information was generally limited to historical financial information, without much in the way of non-financial or operational types of information. The information that was presented was not very well linked to objectives. There was not much information about specific performance indicators, and where included, this information wasn't well linked to targets. By key performance indicators, we're referring to quantitative measures that highlight areas of performance that are critical to an organization's success — for example, customer satisfaction or maybe employee safety.

As I mentioned earlier, there were some good examples. I mentioned B.C. Hydro. We believe that Hydro has gone the furthest of all B.C. Crown corporations toward reporting actual performance compared to targets for a comprehensive set of performance indicators.

We believe that annual reports should provide enough appropriate information to allow readers to be able to assess a corporation's effectiveness. To achieve this, the framework should require managerial commentary on all key aspects of performance — not just financial but non-financial information, as well as general information about the corporation's management and organization. The framework should require the use of measurable performance indicators. It should also require that actual performance be compared to targets and objectives that would have been announced at the beginning of the year.

In our report we suggested that when developing guidelines, the government should consider an approach to reporting effectiveness developed by the Canadian Comprehensive Auditing Foundation. At the time we were doing our study in 1989, the foundation, which is a national non-profit research organization with a broad base of support across the country, had just published the results of its research into effectiveness reporting. Extensive research had been undertaken by a very experienced panel of private and public sector managers.

This panel concluded that there were 12 attributes of effectiveness. The attributes are set out on page 213 of our 1990 report, which I believe you've all received copies of. By way of example, this screen shows four of the attributes. The basic concept is that management of each of the Crown corporations would be required to provide meaningful information, capable of substantiation or capable of audit, about each of the 12 attributes. For example, the relevance attribute would require information about whether activities continue to make sense in addressing the needs for which they were intended, and the acceptance attribute would require information about the extent to which those who use a service or a program judge it to be satisfactory. Taken as a whole, these attributes, while being adapted to individual circumstances, are suitable for assessing the performance of any organization, regardless of its size or activities.

There's much national interest in this 12-attribute framework. Since we did our study and issued our report, we've been actively promoting the use of the 12-attribute framework in the public sector in B.C. as a basis for accountability reporting. The government has also been actively looking at the 12 attributes for use in central government as well as public bodies.

A question with all of this is: what would it cost to provide this information? We didn't attempt to answer that question directly by calculating what the cost would be. We believe, though, that based on the discussions we had with the Crown corporations, much of the future-oriented and performance information that we are suggesting be reported is already available internally to the Crown corporations. To that extent, we believe that the costs of bringing it together in a way that it could be reported publicly would not be that great.

To the extent that the information isn't available, we believe that it should be. Clearly there is a cost involved in developing the information. However, there is also a potentially greater cost if management does not have the information it needs to properly plan and assess its effectiveness.

The Legislative Assembly has a basic right and responsibility to oversee the receipts and expenditures of all public money. As part of this responsibility, the government of the day and, through the ministers responsible, the Crown corporations should be held accountable for achieving the public policy objectives delegated to them and for the good management of the public resources entrusted to them.

Our study focused on the type and extent of information that is made available to the members of the assembly about the performance of B.C.'s Crown corporations. We recognized in the report, though, that the way in which this information is used is critical to effective monitoring. With this thought in mind, we recommended that the Legislative Assembly and the government consider whether there is a need for more structured periodic reviews of the affairs of individual Crown corporations.

In summary, there are three key elements arising out of our study that we believe the committee may wish to discuss. The first would be this question of structured periodic reviews of the affairs of individual Crown corporations. The second would be the need for more information about the corporations' intentions and achievements. Finally would be the need for a legislative framework which would be supported by guidelines.

That was, as George said, a very brief summary of the work we did.

B. JONES: I know it wasn't part of your study to look at the accountability of Crowns to the ministers responsible for Crowns, but do you have a sense that there is a much higher level of accountability, and that some of these areas are being met in terms of the line responsibility to the minister in charge of that Crown corporation? We're looking at public accountability here, but I assume there must be a higher degree of accountability to the ministers responsible; otherwise there's these huge entities out there running around on their own.

E. PRICE: Yes. As you say, it was deliberately scoped out of the study because it's a major area unto itself. The general sense is that yes, clearly a lot of information is flowing between the corporations and the ministers, and to some extent Treasury Board. I think this issue was touched on by the recent independent financial review, which suggested that there was perhaps a need for greater central control. I would not like to answer that definitively, but clearly, as you suggest, there is a lot more information flowing internally. We were interested in the ultimate public accountability question.

THE CHAIR: In the end, the reporting function to the Legislature takes place at the time that the accounts are tabled, isn't it? I mean, the financial accounts that we get in *Public Accounts* are the financial statements only. B.C. Hydro, for instance — the one that I have read — has a lot more data in it, as you said. All those reports are tabled in the House, aren't they?

[9:15]

E. PRICE: Yes. Most of the Crown corporations were created by specific legislation, and there is usually a section in the legislation that requires the tabling of an annual report, but there is no guidance as to what that report should contain. There are a few Crown corporations — not the big ones — that were not created by separate legislation, and there is therefore no legislated requirement for them to table annual reports, although in practice this is being done. Or at least financial statements have been tabled.

THE CHAIR: You say financial statements have been tabled in practice?

E. PRICE: Yes. In most cases there is a legislated requirement for an annual report on operations, but that's as far as the legislation goes.

THE CHAIR: But the legislation doesn't restrict the information that's included; it just gives the minimum standards, I guess.

E. PRICE: As I say, typically it would just require the tabling of an annual report on operations by the minister.

THE CHAIR: Those reports don't get passed automatically to a committee, do they?

E. PRICE: I don't believe so, no.

THE CHAIR: They just come to us through this document?

G. FARRELL-COLLINS: That was sort of my question. A private corporation not only has to issue an annual report, but they also have an annual meeting where they're accountable to the shareholders. While I've been at this only a short period of time, it doesn't seem as though the Crown corporations ever really end up answering to anyone other than the minister and perhaps his or her staff. The accountability directly to the Legislature itself is rather minimal, other than the fact that we can read the annual report and then perhaps request of the minister to do certain things. Are there specific recommendations in this proposal to have that accountability increased or expanded upon?

E. PRICE: No. The focus of our report was on the information that was made available. We didn't really look in any detail at the way in which the information was used by the assembly. We did point out that there are a number of opportunities for members to raise questions about the affairs of Crown corporations, but that would typically be through question period or through the estimates; it would not be focused directly on Crown corporations. We certainly raised the fact that members should have the opportunity for a more structured review of Crown corporations.

DEPUTY CHAIR: Thank you both for that and for this binder. I had a chance to read through the binder.

Did you have a chance to examine the relationship between the boards set up to deal with Crown corporations? Secondly, in this briefing binder. . . . What is this, George? Is this out of your 1990 report?

G. MORFITT: That's right.

DEPUTY CHAIR: In a chart you list the provincial guarantees provided to particular Crown corporations. It would seem to me that that's an area where there is a definite method of accountability needed and an examination of the financial guarantees made available to us in the Legislature.

E. PRICE: That was an area that we didn't look at specifically in the study. It was included in that table as part of the demonstration of the way Crown corporations were funded. The focus of our work was more on the performance of Crown corporations as a whole in terms of what they're trying to achieve, how successful they are and how accountable they are for that performance.

DEPUTY CHAIR: How about the board question? Did you have an chance to examine that at all? I guess that's outside the financial statement question, isn't it?

E. PRICE: Again, yes, it was outside the scope of our study. These are major questions. We indicated in the preamble to this report that the relationships between the corporations and the government and between the corporations and the boards are major questions.

DEPUTY CHAIR: Okay.

E. PRICE: We weren't able to deal with them in the scope of this report. The focus was very much on the ultimate public accountability.

A. BARNARD: Mr. Chairman, I was just going to respond to the question on guarantees and accountability, in that there are accountability mechanisms in place for guarantees. First off, any guarantees issued are in fact reported in the public accounts by way of a note to

the financial statements. Any payments made to honour guarantees that have been called are listed specifically in the public accounts.

We also have an accounting policy now where if there is a clear indication that a guarantee is going to be called or there are a set guarantees, for example, on things like student loans, and we know that the experience ratio is such that a number of them will be called, we expense those at the time the guarantee is issued. They would appear as part of the expenditures of government for that fiscal year.

B. JONES: You mentioned accountabilities through question period and through the estimates process. It seems to me there's a potential one that may not have been used but that I think is clearly the mechanism established for the accountability process: the select standing committee of the Legislature on Crown corporations. If there is a process to bring about reform and improved accountability, that committee would loom large in anybody's thinking as far as the improved process is concerned.

E. PRICE: There was a standing committee on Crown corporations that operated in the late 1970s and early 1980s. I think it focused on the big ones: Hydro and Rail. It was quite active for a while, then I think in 1982 or '83 it, in effect, ceased to function or ceased to operate in the way it had previously. From that point on there seems to have been no organized review of the affairs of Crown corporations. So at one stage there was a committee dealing with some of the Crown corporations.

THE CHAIR: The committee still exists — but it hasn't met, I guess — under the able chairmanship of Joy.

DEPUTY CHAIR: There is a role. Barry makes an excellent point — as usual.

THE CHAIR: I don't have any problem linking public accounts and the reporting procedures to the wider scope of what the reporting procedures should deal with and widening that scope. It may well be within the jurisdiction of another committee on Crown corporations to get more involved in what the Crown corporations do. Clearly this committee has a role in what the Crown corporations report. That's clearly within our mandate.

Sorry you can't stay, Barry. Have a nice trip wherever you're going.

G. FARRELL-COLLINS: You mentioned B.C. Hydro as an example of one of the Crowns that does a relatively good job of reporting. I don't want you to point fingers or rank them, but are there examples of Crowns that are reporting in a less-than-practical way? Are there any specific ones that stuck out as needing urgent attention, or is it a wide spectrum of standards?

E. PRICE: The purpose of the study was not to report or assess the accountability of specific Crown corporations, but more to deal with the issue in a general way.

We did mention in the report certain examples of good reporting. I mentioned B.C. Hydro, and I think we mentioned B.C. Transit in a number of cases. Transit has certainly done a lot of good work on the planning question. They were planning to start to table or publish some of that information.

I would just go back to our overall conclusions. Generally, there was really very little information that was provided publicly about what the corporations are trying to achieve. With regard to the performance question, we found that the nature of the information provided was quite varied. Again, the overall feeling was that the performance information provided was not linked enough back to the objectives. I would hesitate to attempt to critique individual Crown corporations. We were attempting, as I say, to look at it as a rule, and we certainly felt that there was room for improvement across the board.

A. BARNARD: I just wanted to put a little perspective on this in response to that question. The concept of Crown corporation accountability is part of a much larger picture, which is really the whole question of accountability of all public bodies, including school boards, hospitals, municipalities, colleges, universities and all of these organizations. But certainly in terms of looking at the Crown corporations, there is a real continuum.

Actually, you can rate Crown corporations on at least two different continua. One of them relates to its independence from government as a commercial organization. On the real commercial end, I think you would have something like B.C. Rail, which is in direct competition with other carriers and has very little government policy as part of its business. Then you would come down through people like those in ICBC and Hydro, who are very commercial but have either a monopoly situation or elements of public policy, until you get down to those in organizations such as BCBC and BCSC, who are very much providing services directly to government. You have people in the Okanagan Valley Tree Fruit Authority, who are in essence carrying out a government program. So there's a real continuum across here.

The other continuum is what you might want to call relative sophistication and size. Again, you would have corporations like B.C. Rail, B.C. Hydro and B.C. Transit as pretty sophisticated organizations at the top end. And coming down to the bottom end, you would have Crown corporations such as Creston Valley Wildlife, which is a very small organization and does not have — and would not be expected to have — the same kind of management sophistication that a rail or hydro company would have. So when we think of Crown corporation accountability, we really have to think in terms of the very wide range of these organizations with whom we're dealing.

G. MORFITT: Yes, and as Allan has suggested, there are other types of organizations besides Crown corporations. We've just, as an office, completed another study of societies that have been set up by government. That will be in this year's report, which should be coming out in a few weeks.

There are all sorts of organizations out there, and there's this question of what sort of linkage there is, and what the linkage should be, between them and the Legislative Assembly.

THE CHAIR: Could you give us a summary?

G. MORFITT: If I could just make some.... Sorry. What were you going to ask?

THE CHAIR: One of the things that would be helpful for us, just as a term of reference, is a summary that lists the reporting legislation applicable in each of these organizations, whether it's a separate act and whether the wording is all the same — so that we've got a little lexis of each one.

E. PRICE: In terms of the major Crown corporations, we in fact do that. It's on page 204 of the report that we....

THE CHAIR: Of this one?

E. PRICE: No, the previous report. It's in the package that Mr. Morfitt circulated to you. It identifies whether the corporations are created under their own legislation or under the general companies legislation, which would either be the Company Act of B.C. or the Canada Corporations Act.

THE CHAIR: Any company incorporated under the Company Act can have different reporting bylaws, as long as they meet a minimum standard.

E. PRICE: Yes. The corporations created under general legislation do not have any specific or spelled-out accountability requirement to the Legislative Assembly. I should also point out, as Alan was explaining, that this table covers the major Crown corporations, but of course there are many other public bodies that would not be covered here. Some would have their own legislation, others would not have been created by specific legislation.

[9:30]

THE CHAIR: But you do have a complete list that we could look at.

E. PRICE: No.

THE CHAIR: It seems to me that we need to have a complete list that says: these are the reporting requirements for A, B, C, D, E and F, and such and such for the next ones. So if we make a recommendation, we know what we're recommending.

D. SCHRECK: Pardon an extremely naive question, but doesn't the definition of Crown corporation exist anywhere?

A. BARNARD: I will try and respond to that. I think the answer would be no. The word "corporation" in itself tends to put a bit of a definition around it, but there is an extraordinarily wide range of organizations. As George has mentioned, there are societies, and then the question comes: is a society a corporation? There are boards and commissions, there are fully registered Company Act corporations, and there are specific-legislation corporations. I believe that Hydro, for example, is an "authority" in terms of the specific legislation. I think the answer is no, there isn't a specific definition.

D. SCHRECK: I think that's an extremely important point, because a list cannot be made without a definition. I think Alan raises a fascinating topic in this range of elements of definition as you go from one extreme to the other. Then, as George points out, you get into the elements of societies, where the boards of directors consist of public employees. In many cases there is no clear line that says that if a public employee ceases to be a public employee, a resignation is mandatory. Clearly it's a bit on the fuzzy side.

Yet in the public's mind there's this notion that such entities exist called Crown corporations, whereas technically, in fact, it's very much of an undefined range where forms of control are quite varied. The list, Fred, could constitute a thesis on a discussion of elements of control.

THE CHAIR: Ken wanted to ask a question, and George.

K. JONES: I was wondering if you could give us some examples of societies that were formed in this manner.

THE CHAIR: I can give you one: the British Columbia Summer and Winter Games Society.

DEPUTY CHAIR: The Legal Services Society.

A. BARNARD: The B.C. Year of Music Society. There have been some tourism promotion societies.

K. JONES: Can you give us a reason why a society was established, rather than a corporate structure?

A. BARNARD: A couple of reasons are: to draw in people from within the community who have an interest in the particular reason that the society was established; and to enable the organization to attract outside funding. The B.C. Year of Music, for example, would seek sponsorship from various organizations. This is much more easily done in a society or a corporate structure than it is within a government structure.

K. JONES: Is there a difference between the liability of the directorship?

A. BARNARD: I would not want to be held to this, but I believe there is a provision in the Society Act which provides a little more protection for the directors of a society than it would for a corporation.

THE CHAIR: I'm sure that's the case.

G. MORFITT: It's been suggested by my staff here that, from our studies, most of these directors, whether they be with corporations or societies, have insurance purchased for them that indemnifies them against acts other than wilful acts of negligence.

THE CHAIR: The societies would be in a position, even though they are Crown societies, to register as charitable organizations and give charitable donation receipts, I would imagine.

A. BARNARD: Correct. I'm sorry, Mr. Chairman, but I have to leave.

THE CHAIR: Have a nice trip.

DEPUTY CHAIR: Alan, before you go, I have just one very short question. When you bring to our attention the range of societies and Crown corporations and the question of accountability, are you flagging to us that some rules which may be very appropriate for larger corporations with larger resources may in fact place an unfair burden on the smaller entities, or that larger organizations are more easily accountable, even though they may not be accountable?

A. BARNARD: I think the message is that there are different needs for accountability, depending on the size, the sophistication, the program, the effect on the public and also the cost of providing some of these things within very small organizations. A lot of the very small ones do not have systems in place to provide a lot of the information that people may be looking for in the full range of accountability.

DEPUTY CHAIR: So we could be looking at organizational restructuring of some, in requiring them to be accountable.

A. BARNARD: Either that or a structure that clearly defines that some corporations would not be producing all of the information that you might require from the Hydros and Transits of the world.

DEPUTY CHAIR: Thank you.

E. PRICE: I just wanted to make the point, in response to the question of a listing and definition of Crown corporations, that really this issue isn't new. It goes back, as we mentioned in the preamble to our report on Crown corporations, to when the Financial Administration Act was being written in the early 1980s. A task force was looking at financial administration, and at one stage the Financial Administration Act had a section that dealt with public bodies. This was eventually removed.

The task force raised a number of questions about the need for a definition of not just Crown corporations but public bodies, the need for an inventory of public bodies and for some sort of classification and then, as Alan is suggesting, looking at the appropriate control and accountability within each of those classifications.

We pointed this out in our report and indicated that it had been an issue in the early 1980s, and not too much had been done to address it. Therefore we were selecting a major component of public bodies in terms of accountability.

The other point I'd like to make, following up on Alan's comment, is that it is true that one might expect, to some extent, different accountability from a major Crown corporation such as Hydro compared to a relatively small society. As for the framework of the 12 attributes that I referred to — as I mentioned in the presentation — we believe that the framework is appropriate and can be used for any size of organization to produce meaningful information about the organization.

THE CHAIR: I didn't get the reference as you passed by it, because I was searching in the wrong book.

E. PRICE: I think it is on page 213.

THE CHAIR: Thank you.

G. MORFITT: Could I just make a few comments in addition? One of the issues is the question of what legislative requirements there should be for reporting from entities outside of central government to the Legislative Assembly.

THE CHAIR: That was the issue I was trying to chase.

G. MORFITT: That's issue A: what there should be in legislation that says, "Thou shalt report on an annual basis — or some sort of basis — the following types of information," and have that fairly short and succinct. Then in guidelines — not in legislation, but in guidelines supporting the legislation — it would have a more detailed summary of information that should be provided within the overall framework.

Some of that information would be very detailed for the Hydros of the world, and some of it would be very short and succinct for the small societies. But at the moment, there's no legislated requirement in place for the reporting that we think should be taking place to the Legislative Assembly. That goes back to 1980-81, when the Financial Administration Act was passed and the section dealing with public bodies, from my understanding, was taken out of the draft at the last minute, because there was no consensus at that time on what the section should say. The task force of the day, which was helping with a review of the pending act, stated that this should not be left and dropped; it should be addressed. It hasn't been — at least in any tangible way.

So that's the first point. I feel that while some of the societies, commissions and so on are small, they could still report under a general legislated framework requirement. It's not: oh well, it's too much work, or it's hard to do or they don't have the sophistication. I don't think that is a fair reason for not providing some decent information. That's the first issue.

D. SCHRECK: George, it strikes me that the recommendations are just good management and good housekeeping. I would find it difficult to see how

anybody could disagree with the kind of reporting standards you recommend.

What I have trouble understanding is drawing the line on a government policy statement versus legislation, because we seem to agree that we don't even have a definition of what a Crown corporation is. I find the whole literature of what is a public body fascinating, and some of the comments in one of your recent reports on which hospitals are really under the direct control of government versus others that are less so and the continuum they're on are fascinating as a matter of public policy discussion.

But when we go from that level of ambiguity to the auditing principles that you talk about, I don't know how we would begin to define in legislation concepts like relevance, appropriateness or.... What I'm saying is that the whole notion seems to be one that is well-suited to a policy directive, but I don't understand what increased force would be given through legislation, unless we could operationally define all of these terms in legislation. In the course of doing so, my fear would be we would allow some entities to escape through a tight net, where we actually capture more in a policy statement.

So is there a reason behind your recommendation that it should be legislation rather than policy?

G. MORFITT: I'll answer as best I can. Maybe Errol would want to comment on the second point. The first point is that since 1981, when the Financial Administration Act was put in place, a lot of work has taken place across the country in determining what a government body is. What is an entity that should be included in the definition of government? That was nowhere in 1981. Since that time, a definition has been agreed to by this jurisdiction and by most of the others.

[9:45]

Firstly, an entity that should be considered part of government and should therefore be in the consolidated financial statements of government is one that is accountable to a minister for the administration of its financial affairs and resources. Secondly, it has to be owned or controlled by the government. Those are the two requirements. All of the entities that you see included in the consolidated financial statements of the B.C. government have those two elements. They have to have that; otherwise they don't qualify. We can pretty well scope in what is meant by a public body that should be part of government. It should therefore have some reporting relationship to the Legislative Assembly. While there is a myriad of types and kinds, they have to have those elements to qualify.

THE CHAIR: Every one of these bodies has been created by some specific action, either through an act being passed or through a company or society being incorporated. Is that not right? Every one of these bodies has a body.... It's either its own act, the Society Act or the Company Act.

DEPUTY CHAIR: But that by itself doesn't necessarily make them a public body.

THE CHAIR: No. They have to have these other two attributes. What I was getting at, Joy, was more the question of whether the right way to do this is by a change in legislation. There is legislation for every single one of these bodies.

D. SCHRECK: No. If the legislation is the Society Act or the Company Act, then it doesn't trace....

THE CHAIR: We just change the corporation's or society's bylaws.

D. SCHRECK: I'm sorry, Fred. I don't understand that.

THE CHAIR: Every corporation has bylaws, and the bylaws have to meet certain minimum standards. They are not the same for every corporation or for every society.

D. SCHRECK: I understand that. The line of finding the list.... It's a lot clearer to draw up a list of statutes than it is to look through incorporations under either of the other statutes and then trace who these nice folks are who are the founding directors and if they have a line of accountability to a minister. I don't think there's any disagreement on the principle. Operationally it becomes a whole lot fuzzier.

On the two criteria for public bodies — note that we aren't using the term Crown corporation; now it's the wider term "public body" — there are some that we might well be interested in, that are in essence dependent contractors; but it would be difficult to prove a line of accountability to a minister. There are a whole lot of dependent contractors out there that marginally are public bodies, but it becomes increasingly difficult to say that they are directly accountable to a minister. However, if government stops writing the cheques, they cease to exist.

G. FARRELL-COLLINS: David, I think we're getting a little bit off track here in that we're not specifically.... The report was not dealing with accountability to a minister — in fact, it set that aside as a wholly different issue — but accountability to the Legislature itself and to the legislators. My understanding is that the legislation would be relatively general and set out some very general requirements for all of these groups to have to perform. Then you'd be much more specific in the guidelines — i.e., B.C. Rail and B.C. Hydro would be required to issue fairly comprehensive reports and certain requirements, whereas the tree growers' society would be able to meet the legislative requirements in a general way. The guidelines concerning that type of organization would be much more loosely worded and wouldn't require them to be as exhaustive in the amount of effort and time that goes into putting together a report.

They're saying the same thing that you are. You're not going to lay out a chunk of legislation that requires every single person to do exactly the same thing. That's where the guideline and the general policy come in as opposed to legislation.

D. SCHRECK: I'm not quarrelling with it; I'm just trying to clarify what I think is a fascinating area of public policy. What I hear being said here is to use legislation as a vehicle for essentially making a policy statement — recognizing that the legislation is not necessarily operational in the sense of ever being able to find an entity in violation of it. It is a convenient vehicle for stating a policy.

K. JONES: Is there a requirement to bring these under a standardization, so that there is standard reporting and accountability for every one of these entities, a justification for its existence? George, maybe with what you've looked at, is there a requirement to have those two factors there?

G. MORFITT: I think Errol's got several things to say, so I'll let him speak to this.

E. PRICE: I think, in general terms, the answer is yes.

If I may, I'd just like to go back to the question of legislation, because it sort of deals with your question as well. What we were contemplating in terms of legislation would be, as was suggested, a sort of very general framework that would require particularly the provision of future-oriented information as well as performance information. In terms of the applicability of that very general legislative framework to individual entities, it could be done in terms of having schedules to the act. In terms of legislation, we were contemplating potentially the use of the Financial Administration Act or the Financial Information Act as sort of general legislation, as opposed to actually going in and amending the legislation of each individual entity; but having some very general requirements and then potentially, by means of schedules to the legislation, identifying the groups of entities or the specific entities that would fall under various reporting requirements.

The guidelines we were talking about were more in terms of — rather than specifying information for specific corporations — providing some more guidance as to how a corporation would be expected to tell about its future intentions or about its performance. One of the reasons we suggested guidelines was that requirements and expectations do change as time goes by, as experience is gained. Clearly, it wouldn't be practical to be changing the legislation each year as requirements change, particularly with regard to the 12 attributes that we referred to. As I mentioned, that is a relatively new study which is gaining a lot of attention. Our feeling is that as experience is gained and, hopefully, as organizations do in fact start to use the attributes and start to report, specific expectations may change. That was the reason we suggested guidelines.

Is there a need for the basic review? We certainly believe that it's important for legislators to understand what a corporation's mission is. Very often the legislated mandate is very, very general. What then happens typically is that the corporation and the government would agree on the mission and the objectives of that corporation and then everything should flow from that. We believe that it's important that legislators do understand what each corporation is trying to achieve, what lines of business it is in. That really sets the basis for future accountability. Having laid out clearly what the corporation is trying to achieve, both in general terms and then perhaps on an annual basis in more specific terms, that really sets a very good basis for accountability, which then takes us to the performance measurement aspect. If you set the base at the beginning, you can then come along at the end and through a good annual report be able to assess how well the corporation is moving towards those objectives.

K. JONES: Just following on that, shouldn't every one of these entities have to first of all go through a review as to whether it's justified in existing to start with, and then see whether there should be a basis to bring it in under legislative operation?

DEPUTY CHAIR: That's a political decision.

K. JONES: No, it's an administrative responsibility, as it is in any corporate structure. Every time you've got departments, they should be reviewed on a regular basis as to whether they should exist — are they serving a necessary function or not?

G. MORFITT: The objectives, mission, mandate and all of those good things that the corporations should state to the Legislative Assembly should outline all of that.

Let's take an example: B.C. Systems Corporation. Why is that a separate corporation? Could it just as easily be a department of government? I'm not so sure. In order to determine whether it should be a separate corporation or whether it should just be a department of government, you have to look at the objectives they set out for themselves. When something moves out of central government into a corporation, it's usually because they've loaded new objectives onto the organization. In the case of B.C. Systems Corporation, it may be that the government wanted the B.C. Systems Corporation to get into the private sector field in some way — start marketing its expertise to the private sector — or there could be other objectives as well. There could be organizational objectives that make it meaningful that it is a separate corporation. It's up to the Legislative Assembly and the government to determine that. But I think the key to that is finding out what the objectives are and being told that in the annual report or somewhere.

K. JONES: What I'm trying to say is that you could set a set of objectives, and you could have a mission statement to meet those objectives. But where do you review the reason for the objectives? Is there a total accountability of each entity out there? What is it — something like 4,000 different people administering these organizations?

THE CHAIR: No, nothing like that.

D. SCHRECK: An immediate example is what we have done this year as government in eliminating the Hazardous Waste Management Corporation. Objectives and performance are looked at, and it's decided to scratch one public entity. I don't think anybody quarrels with the statement that all entities have to be

reviewed from time to time on the basis of their performance and objectives. That is not done once and forgotten, but is a continuous function of government.

THE CHAIR: And it's triggered in our minds to think about these things when *Public Accounts* comes out, because they are all listed there, and you can see their size, their scope and so on.

E. PRICE: I might just mention — coming back to the 12 attributes of effectiveness — that one of the key attributes is relevance. That attribute would require management to provide information about the extent to which an activity continues to make sense in relation to the reasons for which it was established.

K. JONES: I have a little difficulty with the people who are operating the entity determining their relevance, because it's always easy to justify your presence when you're within, rather than having somebody outside look at it to see whether it's relevant to the overall objectives of the operation.

[10:00]

E. PRICE: The objective of the framework of the 12 attributes is that information be provided. The onus certainly is on management to provide the information, but the information should be provided in a meaningful, substantive way that is capable of substantiation or of audit.

The objective of the information ultimately is to allow readers — legislators — to form their own assessments as to the effectiveness of an organization. So the objective is not to have, if you like, a typically private sector type of annual report that is full of good news, but a more meaningful report containing objective information about these various attributes — objective in terms of being capable of audit. That would then ideally provide you with the information you need to form your assessments.

K. JONES: Does the auditor general carry that role of determining relevancy?

E. PRICE: No, the audit function is not one of reporting the information directly, but of providing an audit opinion on information that is provided by management, in the same way as financial statement preparation and reporting is the responsibility of management. The audit function is then adding credibility to those representations.

K. JONES: So is there a body or an entity that is taking responsibility — that is, outside of these organizations — to determine their relevancy?

DEPUTY CHAIR: Government.

K. JONES: Only government?

G. FARRELL-COLLINS: Can I jump in there for a second, Ken, if you don't mind? I think we can clear this up fairly quickly. If this structure were put in place for all of these various entities, it may well be — probably not likely — that the management or the administrators of this society or whatever may come along and say: "We don't have any objectives anymore. We've accomplished them all, and there's really no reason for us to be anymore. Maybe it can be done a better way." And they then recommend that they themselves disband and dissolve. It's probably not likely, but it's possible.

The other idea is, given these reports and if there is some structure for accountability — that's what we're talking about here, and that's what I think this report recommends — that there be some structure, some process and some requirement for these bodies to report to the people whom they are ultimately accountable to, which is us. We're the ones — the government and the legislators — who look at that and ask if they are telling us the truth. If not, let's find out the truth and then decide whether or not this body is relevant. I think that's the process this report recommends be put in place. We would be doing that, but the board or the directors could also do that themselves.

DEPUTY CHAIR: In the auditor general's binder, on page 215, they outline different accountability arrangements in other jurisdictions — some of which provide a comprehensive model of what you're asking for, Ken. Manitoba has a council, etc.

But again, the question that you ask is, to me, the root of government, and you may want to propose models of how government does its job more effectively. But to delegate the review and responsibility for relevance is to delegate government, if you ask me. You can't delegate it.

D. SCHRECK: To go beyond that being the essence of government, there is the question of the accountability of government to the Legislature and to the public. As we move forward on concepts like using existing legislation — the Financial Information Act — or improving legislation through access to information, it improves that accountability mechanism all the way along. This business of whether the Crown corporation should be directly accountable to the Legislature or through a minister is, in my mind, a little bit like counting angels on pinheads, because the minister is accountable to the Legislature through the estimates process, and you get at some of the Crown corporation stuff that way.

G. FARRELL-COLLINS: We don't need any committees, then.

D. SCHRECK: What I'm saying is that, in the alternative, a report that's tabled in the Legislature in many cases does not provide for any greater opportunity — sometimes less opportunity — for examination and debate. It's never called for debate or need not be called for debate.

I think there is no disagreement on maximizing accountability and maximizing access to information; and in my own mind I'm just trying to sort out what some of these distinctions are in operational terms. Are we counting angels on pinheads, or are we talking about fundamental differences? I haven't seen anything where I see an operational difference yet.

K. JONES: One of the prime examples — it's one that has been there for years; and it's not only in our

jurisdiction, but in other provinces throughout Canada and maybe in the States as well — is the question of Hydro. The Hydro entity, because of its large capital and its large, almost total independence of government, can actually oversway even the government, as has happened in Quebec and Ontario. That's how a Crown corporation is really out of accountability to the government.

THE CHAIR: That's because government has allowed it to do that. Government appoints the board of directors, period. They have all the accountability. One of our problems.... We aren't dealing with who sets policy in this committee; we are dealing with the process of accountability and reporting. I've come to the conclusion that there's general agreement around the table — the few of us that are here. On that subject we're all on the same side: we want to see a process whereby accountability is improved and there's a wider range of information. My understanding of the circumstances at the moment is that there's nothing stopping the Crown corporations from improving their own accountability, with no word from us. You have encouraged them to; some have taken you up on it, and some haven't. Could you comment on why certain Crown corporations have not taken you up on your challenge to be more accountable?

E. PRICE: We mentioned in our report that when we were talking to Crown corporations, generally there was a very positive response — more than generally; across the board there was a very positive response to the issue of improved accountability. There has been quite a bit of interest shown in the framework of the 12 attributes.... We have talked to a number of Crown corporations in terms of how the framework might be applied in their situations. The reason that one is not seeing a very quick move in this direction is just a matter of priorities of corporations having to deal with many different issues. It's certainly on the agenda of a number of corporations, and they're embracing the ideas. My hope is that there will be, over the course of the next few years, a noticeable improvement in accountability.

D. SCHRECK: Have you identified any corporations where you're having trouble getting compliance?

E. PRICE: I can't really answer that.... No. But the reason for that is that we, at present, do not have an ongoing or direct relationship with many of the Crown corporations. We certainly dealt with all the corporations during the study and have been invited back to talk to a number, but we haven't had the opportunity even to update the piece we did in 1989. I mentioned at the outset that, based on our general observations, we felt that the recommendations generally continued to be valid; but we haven't had the opportunity to be looking at this on a detailed annual basis.

G. MORFITT: I guess I'd like to make two comments, one on your last question. You'll notice in appendix E that's attached the number of public bodies that I do not audit. The relationship between my office and those bodies is virtually non-existent. There's no value-for-money auditing done in any of them; I don't do the financial statement audit. So I don't really have a very close relationship with all of those public bodies.

Consequently, as Errol mentioned, it's very difficult for us to insert ourselves into those organizations; although several of them have come to us voluntarily and said: "We like this. Will you please help us out?" We're doing that, and we'll do it for any that want it. But there isn't that close relationship that would otherwise be there.

D. SCHRECK: Which is not to say that there's reluctance to follow standards.

G. MORFITT: No, that's right.

THE CHAIR: We should be drawing this to a close.

G. MORFITT: Maybe I could make one other point. As far as the legislation is concerned, this is a question of voluntary disclosure versus legislated disclosure. It's the old question: why do you have absolute requirements in legislation for people to do certain things? It's because you want at least a minimum standard adhered to. Why do we have a Financial Information Act, for example? If all the hospitals and school boards, and everybody else, gave out the information automatically, you wouldn't have to have it. In this case we think there should be a minimum standard put into legislation and then build around that.

K. JONES: I want to ask whether you have full input from two specific corporations: the Lottery Corporation and the Pavilion Corporation.

THE CHAIR: It would be kind of embarrassing for the Lottery Corporation to state what their objectives are.

K. JONES: Well, it might be interesting.

E. PRICE: I'm not quite sure what you mean by "full input."

K. JONES: Full disclosure. Are they giving you all the details? You were saying that you have a good working relationship with others. Have you got the same relationship with those two?

E. PRICE: In terms of cooperation or providing full details, there is certainly room for improvement in the annual reports. In terms of the cooperation from those two specific corporations, they have been two of the corporations that have been voluntarily talking to us subsequent to our report. We have been talking to them about the framework and about how it might be applied. Certainly their attitude has been very positive to the ideas that we are putting forward.

THE CHAIR: Rather than dealing with specifics at this time, I think we should draw our meeting to a close. It is 10:15, and I know that we're going to lose another member of our committee right away. May I have a motion to adjourn?

The committee adjourned at 10:15 a.m.

WEDNESDAY, MAY 13, 1992

The committee met at 8:50 a.m.

THE CHAIR: I'd like to call the meeting of the Select Standing Committee on Public Accounts to order. The first item of business is the approval of the agenda, which I think you all have. I would like to add an item 3, if we can get to it, being our dealing with the salary-reporting recommendations in the *Public Accounts*, which is in our binder under L, I think.

May I have a motion to approve the agenda, please?

B. JONES: So moved.

Motion approved.

THE CHAIR: First item: retention and disposal applications received to date. John, do you wish to say anything further? We had all the books, and those of us who wished went through them — read great chunks of them. It seems to be a very carefully planned process that doesn't seem to leave any gaps.

J. BOVEY: The theory is that there are precious few, if any, gaps. There's always some scope for more error in applying the schedules.

THE CHAIR: Does anyone have any questions of John before we move along?

Then if I may, we have a series of resolutions, if the committee is comfortable.

C. JAMES: There are four resolutions attached to the work of the Public Documents Committee related to material that spoke to this committee so far. Resolution 1 is that the management of the retention and disposal of the operational records of the office of the comptroller general, Ministry of Finance and Corporate Relations, be in accordance with the record schedules, standards and guidelines described in the operational records classification system of the office of the comptroller general.

Who cares to move that motion?

K. JONES: So moved.

THE CHAIR: It's been moved and seconded that whatever Craig said. . . .

F. RANDALL: Could I ask a question? Does that change anything? What is that?

J. BOVEY: Nothing has been changed. This is approval of what has been submitted to the Public Accounts Committee.

THE CHAIR: So this is just carrying it on in the normal course of events, us having got to this point, and this volume of material having accumulated that now has to be dealt with. Is that a fair way of putting it?

It's been regularly moved and seconded. Any discussion under the motion?

Resolution 1 approved.

C. JAMES: The next resolution is that the retention and disposal of the records described in the one-time and ongoing records retention and disposal authorities on the list attached be in accordance with the disposal dates, retention periods and final dispositions indicated on those authorities.

J. BOVEY: The list covers a great many disposals. There are 82 one-time disposal schedules and 92 ongoing records disposal schedules for a great number of ministries; also, eight amendments to schedules already approved.

K. JONES: What is the impact of this disposal in relation to the access to information which may be coming forward in this session?

J. BOVEY: There will be an integration of both the records disposal schedules and the freedom of information access. If British Columbia follows the pattern of other provinces, there will be a published guide to all records in all ministries, which will tell you what is available and for how long. Various records are scheduled for retention in the original form from, let's say, two months up to 25 years, or indefinitely. But certain records will continue to be disposed of, and there will be a guide that will inform the public as to what is available in ministries.

THE CHAIR: John, as a practical matter, do you see anything that will be destroyed under this stopping someone getting information that is valid and should have been available to them under freedom of information?

J. BOVEY: I do not foresee it. There may be a few incidents that are approved by practice, but we do not foresee that happening. Most of the material destroyed in the short term — let's say, within five to seven years — has never been regarded as a permanent record, and most people would want access to that within the period that it is to be retained.

K. JONES: In view of possible pending legislation which will have certain guidelines in it, is this decision we're making now a little premature, and should not this action be taken following the introduction of that legislation so that there is a clear definition of what should and should not be retained?

J. BOVEY: I don't believe so. I think that very little, if any, information has been lost that a citizen would be inquiring about. I think that the approved schedules will meet the criteria of freedom of information. We may have to make, as you see, the eight schedule amendments. There are amendments made from time to time, with records that are no longer being created, records that have been added, new types of records, and the very few occasions when ministries have wanted to revise the retention periods. They've almost invariably been a shorter retention period rather than a longer one. The practice has been to keep too many

records that are of no use for too long rather than too few.

K. JONES: Have you been involved in any way in the preparation of this legislation?

J. BOVEY: The B.C. archives and records service staff has been involved in a good many aspects of the preparatory work for freedom of information, and privacy too.

D. SCHRECK: What happens if these four recommendations don't pass? Has this stuff been accumulating and waiting for our motions all this time? This will be a great relief to those who run the warehouse, right? [9:00]

J. BOVEY: Yes. A great many ministries will be very pleased that it has at last passed.

THE CHAIR: But the owner of the warehouse will probably be crying.

D. SCHRECK: It's clearly a pro forma action for us to pass these four resolutions, and I'm a little confused as to whether there's anything of substance in the four recommendations — why the whole system should come to a halt on the disposal of records for this pro forma step. Is there a substantive matter that the committee really deals with, when the committee would ever say: "No, don't do that"?

J. BOVEY: The committee in the past has rejected certain records recommendations, particularly the retention of records about patients in provincial institutions — medical records. That was the last incident, which occurred about eight years ago. Members of the committee felt that certain records should be retained indefinitely. The ministry applying to destroy them believed they were in an organizational mess and were not likely to be used by anybody; that they were irretrievable. But the committee thought it was premature to dispose of them.

D. SCHRECK: The records I'm most concerned about are the ones that aren't covered by the statute and left the building.

J. BOVEY: You'll notice that one of the most significant batches for submission is from the division of vital statistics, and those records are almost, or predominantly, scheduled for full retention. That is something that the public has great recourse to, particularly since genealogy became of great public interest.

Resolution 2 approved.

C. JAMES: The third resolution is that the management of the retention and disposal of the operational records of the energy resources division of the Ministry of Energy, Mines and Petroleum Resources be in accordance with the records schedules, standards and guidelines described in the operational records classification system of the energy resources division, as amended.

J. BOVEY: A record classification system has already been approved for the energy resources division, and there are amendments to it — one of the incidents or examples that I mentioned earlier of schedules being approved when amendments are made, new materials, records ceasing to be created. Then amendments are made to the operational records classification system, and they are referred back to the Public Accounts Committee and then resolution of the Legislative Assembly for authorization.

B. JONES: I'm not sure I followed that, John, but that's not the critical point in my question. My understanding is that this particular ministry is probably the only ministry whose information management system is up to speed in terms of the kinds of demands that will be on the system, or potentially on the system, when the new access-to-information legislation comes in. I'm wondering why this particular ministry was identified in this motion, out of all the ministries.

J. BOVEY: Because of the reasons you outlined: because they are very much in the forefront of records management processes; and because the ministry takes the initiative and makes a submission, first to the Public Documents Committee, which, of course, once it gives its approval, forwards it to this committee. So it reflects the degree of organization and preparedness in the Ministry of Energy, Mines and Petroleum Resources. I hope that many other ministries. . . . I expect them to be following.

THE CHAIR: Does anybody have any other questions for John?

Resolution 3 approved.

C. JAMES: The fourth resolution is that the management of the retention and disposal of the operational records of the driver services division of the former Ministry of Solicitor General be in accordance with the records schedules, standards and guidelines described in the operational records classification system of the driver services division as amended.

K. JONES: What is driver services?

J. BOVEY: The purpose of this amendment is to increase the retention period for the duplicate copies of automatic court prohibition notices, which are used by the courts should an individual in court on a separate charge dispute that he or she was ever notified of the original prohibition order. It's sort of a technical matter, but one of great significance to those concerned with its provisions.

THE CHAIR: Any further discussion or questions? We're going to keep the criminal records of people. . . .

N. LORTIE: We should rethink this one.

J. BOVEY: The duplicate copy, Mr. Chairman.

Resolution 4 approved.

N. LORTIE: Mr. Chairman, could I make a comment on the whole procedure? I'm wondering whether this happens every year. If we have a schedule, it would seem to me that these should be automatic, not requiring a resolution of this committee or the Legislature. If we approve the process, it should be ongoing. Can you comment on that?

J. BOVEY: I think the archivists and records managers would agree that the legislation in British Columbia concerning records retention and disposal is antiquated and confusing in its phraseology and that the act should be replaced with something more up to date. It originally dates from 1936, when, of course, records were very different physically in both quantity and type from what they are today. The procedure is a very cumbersome one. It also means that if the Public Accounts Committee is unable to pass the resolutions, things back up in an extravagant and administratively unnecessary way. I think it would be a very good thing to have new disposal procedures and legislation. I think it should be revised in view of the freedom-of-information legislation, so that the two tally.

B. JONES: While Norm may have a good point, I think it may be a little premature in the sense that the Document Disposal Act and freedom-of-information act will be revised in the next period. The freedom-of-information legislation won't be proclaimed until fall of next year. Particularly in the early stages of the process, and seeing how these things work and this committee serving as one of the checks and balances in that process, I think that we may be providing a valuable service during that interim period.

N. LORTIE: Just one comment, Mr. Chairman. I agree. I just think that we should be aiming for eventually doing away with this process and setting guidelines for disposals. If that's happening, then I'm satisfied.

THE CHAIR: Certainly it would be appropriate for us to add a recommendation that the government consider updating this particular legislation at the same time that the freedom legislation is being done.

N. LORTIE: I understood from the comments of Burnaby Jones that that was happening.

B. JONES: That was my understanding. Is that the case, Joy?

DEPUTY CHAIR: Yes, it is.

THE CHAIR: Oh, it is happening.

DEPUTY CHAIR: Well, the freedom-of-information people are in touch with. . . . You're working with them. They're in the same ministry as you, right?

J. BOVEY: Correct.

DEPUTY CHAIR: And you've had discussions about how freedom of information will impact on your life and. . . .

J. BOVEY: Yes, we're becoming increasingly aware of this. I might say in reply to your question that there are only two legislatures in Canadian provinces that are involved in the records retention and disposal process: British Columbia and Saskatchewan. The general practice is not to have assemblies and committees of assemblies involved in such detail as we have in British Columbia.

K. JONES: Mr. Chairman, I'd like to make a recommendation that this committee recommend to the government that the Document Disposal Act be revised to update it to current needs and requirements.

N. LORTIE: Seconded.

THE CHAIR: It has been regularly moved and seconded that this committee recommend to government that the Document Disposal Act be updated.

B. JONES: John, is this not already being done?

J. BOVEY: It has been considered several times, certainly by the archives and records service, but there have been various obstacles and reasons — legislative schedules — as to why it has not been done in the past.

B. JONES: So you would be supporting this recommendation.

J. BOVEY: Very much so.

THE CHAIR: Any further discussion?

Motion approved.

J. BOVEY: I just wish I'd had a vote, too, on that.

D. SCHRECK: I somehow think your vote was a majority.

K. JONES: There was an influence.

THE CHAIR: Thank you very much, John. We appreciate your contribution to the work of this committee, and we look forward to perhaps not seeing you next year.

J. BOVEY: Until any legislative changes are made, we will be back, and could even be back during the current session.

THE CHAIR: Item 2 on the agenda is the draft recommendation No. 1 to do with the recording of government pension obligations. We were all given this last week as we left.

DEPUTY CHAIR: Norm wasn't here.

G. MORFITT: Mr. Chairman, it's on page 8 of this draft first report, which was also circulated — if you need it from that page.

D. SCHRECK: The first set of recommendations that we've done today, quite frankly, gives us a rubber stamp on a procedure that we didn't understand anyway, but we have the full support of the staff saying it had to be done. I think we're moving into another category here. I know I had some trouble, when we went through the discussion on this matter, in terms of defining those various liabilities, and whether those liabilities should all be treated equally. I'm a little concerned with the nature of how this.... I have a couple of concerns. I'm concerned about how we proceed as a committee — whether it's best to proceed dealing with each matter in a whole series of recommendations or whether we revisit them as a summary document. Perhaps some advice from the Clerk on how previous committees have proceeded would be useful.

On this particular recommendation, I'm concerned about its general nature and whether that would mean treating all of the pension liabilities in the same manner. It was clear to me in our discussion that they are not the same at all, and that there is a difference of some $2 billion in how they get treated — and a difference of opinion between the officials on precisely how they should be treated.

I'm asking, first, for guidance from the Clerks on how previous committees have conducted themselves on recommendations, and second, the acting comptroller general's view on this recommendation, and whether it sufficiently distinguishes between the different categories of pension liabilities.

DEPUTY CHAIR: On a procedural matter as well, on the recommendations, I don't wish to hurry the business of the committee. I think it's important that we make sure that we examine almost all of the issues facing us first, and from that make summary recommendations. There is some very, very, important business before this committee, but some of it may mean that we draw general conclusions rather than specific issue-related conclusions about accounting — I don't know at this point. I'm wondering about the speed at which we're moving, and why. I would suggest that there is no need for the speed, that we should be doing a thorough review, and from that doing summary recommendations that may apply in a general sense to the business of government.

G. MORFITT: Just to comment.... Craig, I don't know whether you also distributed this other sheet that I sent to your office on this issue.

C. JAMES: No, I haven't.

G. MORFITT: There is quite a wide variety of pension issues that the committee has had a chance to discuss. The one issue that sits in recommendation 5 on page 8 of this draft deals with the specific reservation of the auditor general on the financial statements of the province of British Columbia, which has to do with the non-recording of unfunded pension liabilities. All of the other pensions issues — funding the pension plans, how they should be funded, inflation indexing and actual valuation of the MLA account — are still not included in any of the recommendations in this draft. It has been suggested that the committee consider passing a motion on only one issue — the one relating to the non-recording of earned pension liabilities that are unfunded. The reason it's included here — I believe it's the acting comptroller general's feeling, and it's certainly my feeling — is that there should be some action taken relatively early on in this session to give direction in the preparation of the financial statements for the fiscal year that ended March 31, 1992.

THE CHAIR: You remember that was the question that we asked last week: if we were to move on this, could it be effective for this coming year?

G. MORFITT: That's right. I think the feeling is that the earlier any comment is made from this committee, the better it will be. If it's left to the last report, for example, it may be too late for this fiscal year just completed. That's the reason this one particular issue is included here.

D. SCHRECK: With all due respect for the auditor general, this committee doesn't set government accounting policy. This committee submits a report to the Legislature, which is then the property of the Legislature, and which government may act on as it chooses. So the question of government accounting policy for the current fiscal year, and how that relates to the timing of the work of this committee, is probably as expeditiously dealt with through the recommendations that the comptroller general makes to Treasury Board. I don't think there is any disagreement on the principle of recognizing the pension fund liabilities.

A major problem that we discussed earlier on is disaggregating those pension fund liabilities and deciding which is a government liability and which is a policy problem. I'm very concerned about the general nature of this recommendation, and how that problem is dealt with by it.

THE CHAIR: George, is there a clear understanding in your mind which particular pension accounts would be brought into play by this draft recommendation?

G. MORFITT: That's made clear in the reservation to the financial statements in my report that my office put in last year — that the public sector plan unfunded liability is not just a moral but a legal requirement to be funded by the government, in our view, and should be booked.

THE CHAIR: You just said public sector rather than public service.

G. MORFITT: I'm sorry. Public service is what I meant. It's restricted, in the view of my office, to that particular plan. The question that the committee might want to discuss further is how to record or how to reveal the unfunded liabilities of those plans that are

not a legal obligation of the government, which we've discussed before.

A. BARNARD: I was just going to make the point that when we read government's pension obligations, we did take it — as Mr. Morfitt has just pointed out — as being those direct obligations of government that are in fact a legal obligation.

We do have a slight reservation, which I have already discussed with the auditor general's office with respect to public sector accounting statement 5, and that related to two things in essence. One was that public sector statement 5 says that the unfunded liabilities should be calculated using management's actuarial assumptions. There is a certain amount of concern about management — in this case the government — stating its economic assumptions, because when we start stating our assumptions of what interest rates are going to be, what inflation is going to do and what salary increases are going to be, we are in fact signalling things that maybe government would not wish to signal. We have some concerns about that aspect, and we've considered that maybe one way of handling that is purely to deem the actuarial assumptions as being management assumptions.

The second concern that we have had, and is under discussion within our office at the moment.... If anybody ever thinks accounting is boring, you should listen to some of the discussion we have.

THE CHAIR: Then they'll be convinced.

A. BARNARD: The recommendations made in statement 5 indicate that there should be attributed to each year an imputed interest cost on the unfunded liability. Using the public sector plan at the moment, we're talking about an imputed interest on $441 million, which at an assumed interest rate of about 6 percent comes in at about $12 million a year.

There is a body of opinion that says, because the unfunded liability has been decreasing slightly every year, that it is going to overload the next few years in pension cost attributable to that specific year. The statement was made in one of our discussions that if government changed its funding arrangements for the pensions by three-quarters of 1 percent, which amounts to $8 million a year, there would be no unfunded liability to book at all.

This is the kind of sensitivity that we're dealing with in terms of holus-bolus taking recommendations. There's a lot of stuff that needs to be worked through. But in principle, we do agree that there is an unfunded liability in the pension plan which should be recognized at this time under these assumptions.

K. JONES: I believe that this resolution deals specifically with the area that's of concern to the auditor general. There will be further recommendations, I think, that we should bring forward with regard to the other areas. I would like to move this recommendation at this point.

B. JONES: I have some reservations in terms of process. There does seem to be some disagreement between the advice of the acting comptroller general and the auditor general, and I would feel much more comfortable if it would be possible for those offices to get together and bring forward a recommendation that would have the approval of both offices, which we rely on for accounting advice in this committee.

G. MORFITT: Could I just comment that this preamble and recommendation were reviewed with the acting comptroller general before it was finalized? He made a couple of suggestions for amendment which were included, so this has been passed by him and approved by the acting comptroller general. However, he may have some suggestions for other changes today, I don't know. I do want to emphasize that we do work together on developing these recommendations.

A. BARNARD: Just to emphasize, one of the things that I asked to be put into the preamble to it was that we agreed in principle. It is the principle, as I said before, that we definitely agree on, and it is just on some of the specifics of the statement that we had some reservations.

I was working under the assumption that if we were to book the pension, even though we were not to follow statement 5 in its particulars with respect to the two areas of concern to us, that would satisfy the auditor general's concerns with respect to the qualification of opinion on the financial statements. From that point of view, we are definitely in sync.

D. SCHRECK: I ask for your assistance as the Chair, Fred, and also the advice of the Clerks on how to proceed procedurally and on what our options are. I find that we now have a motion on the floor, and it's a motion for a recommendation which I don't think any of us have any trouble with in principle. However, I'll tell you I have enormous difficulty with the specifics of how it happens to be worded, for very much the reasons stated by the acting comptroller general: the explicit statement of assumptions as required by recommendation 5 can pose an enormous range of difficulties, including, I should say, in the collective bargaining process. I don't think anyone here would want to advertise for five years in advance what government is assuming by way of wage settlements with the staff it has to bargain with. That's simply bad management. Nowhere is that done, to my knowledge, in either the private or public sector.

I originally stated I was concerned that the recommendation was general, whereas I see it, as clarified by the auditor general, really only specifically applying to the public service plan and the college plan, with the balance of the plans, in particular the teachers' plan and the municipal plan, not caught by the recommendation at this time.

THE CHAIR: I didn't think the college plan was.

D. SCHRECK: I believe in the footnote — that's the other statutory plan.

K. JONES: No, it's not.

D. SCHRECK: I could stand to be corrected, but the point is that there is a range of difference of some $2 billion on precisely how they are handled, notwithstanding that all of these matters are covered in the financial statements by way of various notes and that any bond-rating agency makes itself cognizant of all of these issues regardless of precisely which formality is followed in acknowledging the existence of these liabilities, and notwithstanding that there is considerable difference in the bargaining process as to how those liabilities are recognized and who ultimately owns them.

I am extremely concerned that we are proceeding on a matter that, in principle there's no disagreement on, but in specific application it has enormous implications. I'm only comforted by the fact that this committee makes recommendations which may or may not be followed by government. However, I don't want to be part of recommendations which I do not wholeheartedly support, and my lack of support is not for any political reason. It's when I put on my technical hat, from my past technical background, that I see that the recommendation fails in its specific application. I'm asking guidance on how we can get out of the procedural difficulty that we have right now. Is there a way to postpone consideration of the motion that's on the floor?

[9:30]

DEPUTY CHAIR: Adjourn debate on the motion.

THE CHAIR: If I may just speak to the subject rather than to the procedure, I must admit that I don't feel that I clearly understand all the consequences and ramifications of this matter yet. I just need to get more knowledgeable and a little more comfortable about it.

K. JONES: Perhaps we could table it for a week for further input.

G. MORFITT: Mr. Chairman, we're prepared to answer every question you might have on this subject. What I'm hoping will happen, as an auditor, is that I will not have to put a reservation on the financial statements of the government for the fiscal year ended March 31, 1992.

THE CHAIR: We understand.

G. MORFITT: If I can accomplish that, either through this committee, through the good graces of the acting comptroller general or through other means, I would dearly love to see that happen. That reservation is in respect of the non-recording of unfunded pension liabilities of one pension plan, and that is the public service pension plan.

THE CHAIR: You wouldn't record the MLA one?

G. MORFITT: That reservation does not apply to any other pension plan. Why? Because the other pension plans are not a legal obligation of the government. Ergo, having said that, this recommendation 5, as it's currently written, does not identify any particular plan. What it tries to say is that whatever the government's pension obligation is, the unfunded liability should be recorded. Leave it up to the comptroller general's office, the government and my office to determine what that is and how that should be recorded. That's the theory behind this.

DEPUTY CHAIR: I understand that almost every jurisdiction across Canada has dealt with this issue, and there's been no movement on recording the unfunded liability. Can someone, either the auditor general or the comptroller general, explain why there's been this inaction?

G. MORFITT: It was brought out by Mr. Barnard last week that there has been some movement. The government of Canada, the province of Quebec and the province of Newfoundland now record their unfunded pension liabilities. The other provinces are certainly looking hard at doing so. The auditors general across the country, in most jurisdictions where they're not recorded, are certainly putting reservations in their auditor opinion. It's moving further towards this recording.

A. BARNARD: I suspect that the reason some of the other jurisdictions are having a lot of difficulty with this is that it tends to be an extraordinarily significant number for a number of them — much more so than it is for British Columbia — because some of their pension plans are not funded at all. It creates a real problem.

D. SCHRECK: From George's comments on the matter of the qualification of financial statements, I'm delighted to hear the narrow focus on the roughly $487 million that we're talking about in that one specific plan. The remaining item of uncertainty that I hear is with the issues around this recommendation 5. If I take this back to the discussion we had on variance around actuarial assumptions, it is not at all clear that following the specification of management assumptions, with the problems that we discussed a moment ago, is in anyone's best interest. Perhaps there is a way to deal with the recording of some $480 billion in liability without exposing the public treasury to increased risk by actuarial method — i.e., to state that that is the assumption, and not get into the evaluation technique. Leave it in the hands of the actuary or the superannuation commissioner or the comptroller general as to the methodology.

THE CHAIR: So you wouldn't have any problem with this....

D. SCHRECK: That goes a long way towards dealing with the specific problem, rather than a general recommendation, which I think says more than anybody's really agreed to. I say "agreed to" in a very technical sense.

B. JONES: I move that a decision on this matter be postponed to a subsequent meeting of this committee.

Motion approved.

THE CHAIR: If I may, I would just like to ask one quick question before we move on. A further recommendation that you made deals with the recognition of liabilities that have to be met in the end from future government taxation. For instance, the funding of universities. If we deal with that subject, if that comes along and there's wider recognition of it, does that bring any more pension liabilities into the fold?

G. MORFITT: No.

THE CHAIR: Okay. We should move along then.

G. MORFITT: Mr. Chairman, it would be helpful — and maybe this was going to be a suggestion from other members of the committee — if we could know, as advisers to the committee, if we can provide any further assistance on this issue if it's to come back.

DEPUTY CHAIR: No. I think the debate today was extremely helpful. What I would like to do now is consider it just for a. . . . I don't think that we will take a long time — not weeks and weeks by any means. It was very helpful. I would suggest that we may be able to examine it in the very near future.

F. RANDALL: I was just wondering about recommendation 5. If there's discussion about all the different plans, why can't we be specific about the one plan that we're talking about?

D. SCHRECK: That's the direction we're going in.

F. RANDALL: And name it in the resolution. That might help.

D. SCHRECK: We'll consider it and come back to it in a week or two.

N. LORTIE: Was there a seconder to that motion?

THE CHAIR: You don't need seconders in committee.

N. LORTIE: We can amend this motion next time, after thinking about it?

THE CHAIR: Absolutely.

K. JONES: Mr. Chairman, I would recommend that this be placed on the agenda for the next meeting.

Motion approved.

THE CHAIR: We shall move along. The next item is the one that I had added to the agenda. It's the subject of whether there should be a different cutoff point in the reporting of salaries paid in the *Public Accounts*. At the moment, anyone whose salary is more than $30,000 is listed in the *Public Accounts*.

The recommendation is that we should raise that $30,000 to something higher, which will cut out a tremendous amount of printing. The understanding is that this would apply to people who are in the civil service, not order-in-council appointments. Order-in-council appointments' salaries, allowances and expenses would always be listed, but people who are subject to the Public Service Act and therefore forbidden by that contract of employment from certain actions either would not be listed at all, as is the case in the majority of provinces, or else the level would be raised from the present $30,000 or $35,000, whichever it is, to something higher.

I must admit that my own feeling is to push it up to at least $50,000. I wonder if the committee is in a position to deal with this.

DEPUTY CHAIR: This was a discussion paper that was handed out, right?

THE CHAIR: It was handed out April 15. It was a letter to us from the comptroller general. Attached to it was this sheet that shows the number of people that were. . . . It also dealt with severance pay questions.

A. BARNARD: Mr. Chairman, I was wondering if I could just give a little background as to why we have presented these papers to the committee.

We're always looking to try and improve the *Public Accounts* and to make them more readable for people. At the same time, we obviously try to keep the cost of production within reason. We have always used the Public Accounts Committee as a surrogate for our users. We've always considered that the Members of the Legislative Assembly were the chief users of the financial statements. As such, this committee represents those users, and we like to get the viewpoints of the users before we recommend any changes to Treasury Board.

So we have asked you to consider three sets of recommendations: one dealing with public servants' salaries, one dealing with the way we report the payments made to MLAs, and the third one dealing with the way we report grant payments. The three issues are very similar in nature but deal with specific groups of people.

B. JONES: I'm certainly in support of the thrust that you were suggesting, Fred. In the past, as salaries have increased, we have raised the level of reporting. But rather than base it on some arbitrary figure, I'm just wondering if we might choose a figure that had some particular meaning. I think the kinds of individuals that should be exposed to public accountability are those who are at some level of stature in the public service in that perhaps they're doing some travelling and those kinds of things, rather than the more junior or more lowly paid public service staff. I'm wondering if Alan or George might have a suggestion of what an appropriate figure might be that would assist us in deciding where a cutoff might be.

THE CHAIR: Or whether it could be classified in some other way than a dollar number.

D. SCHRECK: Perhaps a pay grade. Perhaps what we should be looking at, so that it doesn't have to be revisited year after year, is reference to a pay grade,

which would be consistent with what Barry is saying. Everyone in that pay grade and above would be reported, and then as the salaries change, we don't start catching things we don't need to catch.

THE CHAIR: For the first time you would have people not taking a pay raise.

G. FARRELL-COLLINS: Now there's an idea.

DEPUTY CHAIR: When you list the salaries, does this include overtime compensation?

A. BARNARD: Yes.

DEPUTY CHAIR: So, it's total comp.

A. BARNARD: One of the suggestions has been that since most of the employees in government are already covered by union agreements — collective agreements — the management exclusions are set into a series of 12 grades. Most of the people who fit into grades 9, 10, 11 and 12 are in fact order-in-council appointments. We are recommending at this stage that all order-in-council appointments be published. If we were to publish just order-in-council appointments and nothing else, it would probably cap out at just about everybody at level 8 in management, and all of the collective-agreement people would not be reported. This is our recommendation, because the rest of it is all very much categorized and. . . .

THE CHAIR: We could look it up on the schedule.

A. BARNARD: We could put in a schedule which says that the top grade for each category into the management exclusions. . .and refer to the collective agreements.

B. JONES: What level of salary would category 8 be?

A. BARNARD: Level 8 would be about $80,000 - $77,000.

SOME VOICES: Too high.

K. JONES: The thing I have concern a about is that it's okay if these people were not making any extra time, such as overtime and that sort of extra income, but if some people are making considerably more than the flat rate, I think it's important that that be known to the various people competing with them, or who are thought to be on equal levels with them. The public also needs to know when people are getting considerably more income than the flat rate.

If we raise this level very high, we're going to eclipse all those people who may be putting in extra hours, but maybe it also justifies there being two people doing the job rather than just one person making a lot of money.

A. BARNARD: I think there is a valid point there. The only thing I can add or suggest is that the only people who actually get paid overtime are in collective agreements. No management people get overtime, and I would suspect that the public is probably more interested in the management people.

K. JONES: I would disagree with that. I think a lot of people are interested in the unionized people who are getting paid more than the standard 40-hour, 37-hour or 36-hour week. There's sometimes a great interest in having the jobs of those people who are working long hours made into two jobs, so that more employment is generated.

F. RANDALL: I'm inclined to agree with your comments about $50,000, as long as that is not including any kind of expenses or travel — if that's the actual salary. If there are expenses over and above that, I think they should be listed in another column. I don't think they should be combined in any way, but I think $50,000 is a reasonable amount.

THE CHAIR: Okay, that's not the $77,000, level 8? You're not comfortable with that.

F. RANDALL: No. I think it should be $50,000, because it's a substantial move from where it's at, and it can always be reviewed next year.

THE CHAIR: The fact that someone's expenses would be on top of the $50,000 isn't relevant.

F. RANDALL: I don't think expenses should be included as part of a. . . .

DEPUTY CHAIR: It's listed separately: travel.

F. RANDALL: As long as it's not included.

THE CHAIR: Still listed, but you would list only people whose salaries are in excess of $50,000.

F. RANDALL: Yes.

G. FARRELL-COLLINS: Two quick questions on this one. My one concern for lopping off the bottom sector of the pay scale deals with pay equity. Sometimes we need to know what's going on at the lower scale to see if any unfairness in reverse order is going on at the lower end. I don't know if that's something we want to consider looking at, or if it's even relevant.

My understanding for having these salaries public, in *Public Accounts*, is that people can see if people are being overpaid or being paid appropriately. Perhaps there's also some merit in looking in a public way at what goes on at the lower end of the salary scale. That may be possible. I don't know if that needs to be by name or by some other method, but I think it's worth consideration..

The other one is severance packages and severance pay. There seems to be no public accounting of severance packages, and over the past eight or ten years, there has been a growing concern about large severance packages given out to public employees and, for that matter, even to elected officials. While I don't believe that comes into what we're looking at now in

the public accounts, it may be another area that needs to be looked at.

A. BARNARD: In response to those two questions, I believe we can handle the pay equity issue by looking at the categories of employees and the rates of pay for those categories. By looking at that, I think you get a much better measure than by looking at specific employees, because if you list by specific employee, you don't really know what category they fit into. And what's more, you don't know whether they've been working full-time, three-quarter time, overtime or anything else, so it tends to fuzzy that message up quite a bit.

With respect to severance, we did table a document with the committee which talked about how severance payments have been reported and the structure on which they're currently set. That, as you say, is a separate issue, and if you wish to address that separately, obviously that's the committee's business.

THE CHAIR: In my mind I have treated that as a separate issue that we have yet to deal with.

B. JONES: Fred, is what you were suggesting option 2 on page 2?

THE CHAIR: Yes.

B. JONES: And that would include travel, of course?

THE CHAIR: My thought was that you don't want to include the travel in making the cutoff point. You leave the travel out for the cutoff point purpose.

B. JONES: Yes, but travel is not eliminated in the process.

THE CHAIR: No, not in the reporting.

DEPUTY CHAIR: It's a separate item.

A VOICE: A separate column.

B. JONES: If that's what you were suggesting, I would so move.

A. BARNARD: Mr. Chairman, before you do that, just a point of clarification. In option 2 we are saying that in the public service we delete everybody except order-in-council appointments, but for Crown corporations it would be $50,000. That is slightly different than saying all the public service people above $50,000 would be reported. I just want to make that point clear.

F. RANDALL: But you didn't move recommendation 2, did you? You moved the. . . .

THE CHAIR: Hang on. Before. . . .

B. JONES: Let's get clear. I'm not clear now.

THE CHAIR: No, I'm not clear now. Let's not put a recommendation forward for the moment, because I have two more people on my speakers' list: Ken had a question, and Norm had a question.

B. JONES: I'll agree to that, even though it's unparliamentary.

K. JONES: If we set a level higher than $30,000, and since an MLA's salary is $32,000, is this going to eliminate the MLA reportage? Because we're not order-in-council.

F. RANDALL: It's a separate report on MLAs.

K. JONES: On which? What are you referring to there?

DEPUTY CHAIR: There's another discussion paper; it was handed out before.

F. RANDALL: Yes, there was handout that was given out a month ago or thereabouts.

THE CHAIR: It is a separate schedule in *Public Accounts*. We are not listed with all the other government payments. They're a separate schedule.

N. LORTIE: Just a couple of comments on what Gary was talking about. It says here: B. Taylor made $63,000. No way in the world I know whether B. Taylor is Beth, Bruce or Brenda, and if we want pay equity or to find out what classifications and what types of jobs, that information isn't here anyway. I think all these figures just clutter up the book and are of no use to this committee or the Legislature.

THE CHAIR: And they tell your next-door neighbour how much money you earn.

N. LORTIE: That's right. I tried to look up some of my friends, but I guess they're below the. . . .

THE CHAIR: I found my son and phoned him up and told him I wanted the money back I'd loaned him.

B. JONES: See how useful it is?

THE CHAIR: Absolutely right.

K. JONES: Maybe we shouldn't change it.

THE CHAIR: Just so we're sure, Alan, we know where we're going, my understanding of what we discussed before was that it was proposed that every person who was paid a salary of $50,000 or greater, whether they were on the public service or in a Crown corporation, would be included.

A. BARNARD: That's my understanding of your discussion, but that is not exactly what option 2 in the paper says. This was the point I was trying to clarify, because I believe Mr. Jones referred to option 2.

THE CHAIR: Is that what you wanted to propose?

B. JONES: No, I think those individuals employed by Crown corporations should also have public accountability.

THE CHAIR: Yes, that's what I'm saying it should be, too. What changes do we need to make to option 2, Alan, so that it includes every person who earns $50,000 or more in the listing, whether employed under the Public Service Act or by a Crown corporation?

A. BARNARD: I think, Mr. Chair, that it would be easier to take a look at option 3, but instead of moving it to $40,000, move it to, say, $50,000, and that will achieve what you've been discussing.

DEPUTY CHAIR: Does that capture Crown corps then, too? It does, right?

G. FARRELL-COLLINS: Are we going to fix $50,000 from here to eternity so that five years from now we need to do this again, or can we have some sort of scale so that as these agreements go up or as. . . ? I mean, can there be some indexing so that this continues, and we don't have to deal with this again and become outdated?

THE CHAIR: Gary, one of the alternatives originally was that we would only include people at level 8 and above, right? That would have accomplished what you're trying to do. But I took it that the sense of the committee was that they weren't ready for that yet; they might be in the future. So let's move it up to $50,000, and maybe next. . . .

G. FARRELL-COLLINS: Is there a $50,000 level approximately there, so this works from now on, and we don't have to keep doing this all the time?

A. BARNARD: I'm not exactly sure of the figures, but we can come back and put the closest level to the $50,000. It would be about a level 5 or 6 — in that range somewhere.

THE CHAIR: It's been moved that this committee recommend to the government option 3 as listed on page 2, with the amendment to cross out $40,000 and increase it to $50,000.

G. FARRELL-COLLINS: May I speak to the motion? Really quickly.

THE CHAIR: Yes.

G. FARRELL-COLLINS: If we make this motion and pass this recommendation, then we're stuck with $50,000. I'm just wondering if we can do this in such a way that we get a level or grade so that we don't have to keep revisiting this, or other Public Accounts Committees don't have to keep revisiting this.

B. JONES: I don't disagree with what Gary was saying; however, we're going to have to revisit this anyway down the road. What we're proposing today may be determined contrary to the privacy provisions of the freedom of information and protection of privacy act. But that's to be decided at another date. As I said before, that won't be implemented until fall next year. We'll have another reporting of public accounts in the meantime. I think this is a one-year thing, and it's probably a convenient figure to choose.

K. JONES: I move that we table this motion until the next meeting, so that, as has been suggested, there's time for input and also for us to review the impacts of it.

[10:00]

K. Jones moved adjournment of the debate.

Motion approved.

THE CHAIR: The debate is adjourned. We will bring it forward to the next meeting.

The next item on the agenda is the consideration of the committee's first report. We have all seen it this morning for the first time.

A. BARNARD: Mr. Chairman, can we deal with the other two papers that we had on the MLAs' allowances and the grants? That would at least give us the sense of where the committee is going.

DEPUTY CHAIR: We can adjourn debate on that, too.

THE CHAIR: Certainly.

Okay, the second item. . . . Do you all have these briefing notes that were originally sent out? The issue in the second one is "Public Accounts: Reporting of the Salaries, Indemnities, Allowances, Wages and Travelling Expenses of Members of the Legislative Assembly."

A. BARNARD: In essence, Mr. Chairman, this recommendation is more in the style than the content of doing it. Most of the content is covered in our current *Public Accounts*, but it tends to be split up into a number of different schedules. What we're attempting to do here is take a look at the format that we do it in, and what we're recommending is that we follow the style used by Alberta, which is the attachment to the paper. It schedules each one of the MLAs, and against that, the sessional indemnity, any subsistence allowance, the statutory salary that the MLA may have for any official capacity — such as a member of the executive council — any of the benefits, travelling expenses and any other fees or things paid. It presents in one schedule the total remuneration that an MLA receives from the public purse.

K. JONES: I move option 2.

THE CHAIR: Let's have a discussion first, please. We haven't even got the stuff back yet.

One sees now the problem that civil servants have, that some of the allowances that MLAs are paid are non-accountable and some are clearly accountable. And someone is on a committee. . . .

[The Chair leaves the chair; approx. 30 seconds.]

B. JONES: . . .with MLA benefits. Those are offices paid for by the government for the MLA to maintain a liaison with their constituents. It is not part of the compensation package of an MLA in any way, shape or form.

K. JONES: I absolutely agree.

To whoever can answer this: is there any advantage to the public to identify which of these allowances are considered tax exempt? That also changes the valuation of them, I believe.

A. BARNARD: I don't think that would be possible, Mr. Jones, because some of the allowances may be taxable in some people's hands but not in others, depending on various circumstances. So it would be a little difficult to do that.

K. JONES: Identified in here are various amounts that are considered as income tax–exempt.

A. BARNARD: Certainly we can do that by just putting a little star at the top of the column to indicate, for example, that the expense allowance under the Legislative Assembly Allowances and Pension Act is non-taxable. We can certainly star that, but some of the other items may be a little more difficult to. . . .

K. JONES: The subsistence allowance would be one that would be exempt also.

A. BARNARD: Yes, we can do that.

THE CHAIR: That's an interesting thought, because I think of the subsistence allowance as just a recovery of expenditures, whereas the fact that one-third of the remuneration shown is paid in a manner that makes it tax-free, and is there only because the federal Income Tax Act has the provisions of whatever section it is, is what allows this to happen. It happens to school trustees, aldermen, mayors and everybody else. It is really just a means of paying them some tax-free salary, whereas the subsistence allowance is the reimbursement of expenses, even though you don't have to account for them.

DEPUTY CHAIR: To the comptroller general: where is our capital-city allowance reported now — that 100 bucks a day we get?

A. BARNARD: I believe it is reported in the *Public Accounts* under one of the sessional allowance schedules.

DEPUTY CHAIR: Does Alberta have such a thing? Is it reported here?

A. BARNARD: I think it would probably fit into their subsistence allowance column.

DEPUTY CHAIR: I see.

F. RANDALL: Looking at the back page, I wanted to ask about the Alberta one. What's all covered there? It talks about benefits. What kind of benefits are listed there? Do you know? How would that apply here? I mean, does that cover your medical coverage or. . . ?

K. JONES: Contributions by government to the benefit plans perhaps?

A. BARNARD: Yes. All of the benefit plans including pension, I would think, if they've got a contributory pension plan, medical coverage. . .

K. JONES: Dental. Extended health.

A. BARNARD: . . .dental plan, life insurance. . . .

F. RANDALL: Canada Pension Plan. All those things?

A. BARNARD: Yes, the employer portion of those.

F. RANDALL: I'm just wondering why you'd list those things. I mean, they are mandatory for everybody.

A. BARNARD: I think the reason they do this is to show the total payments made to and on behalf of each one of the elected representatives.

F. RANDALL: Do they do the same for all the other staff? Do they do the same for you, for example?

A. BARNARD: Yes. We tend to have these lumped into the salary payments, and so that is the way we are currently reporting it for MLAs as well.

K. JONES: Government contributions, though?

F. RANDALL: Are all your contributions considered part of your income?

A. BARNARD: Our contributions, yes.

F. RANDALL: And they are all listed?

A. BARNARD: No, just the contributions we make. The overheads are not reported against the name, but they are reported in the particular payments by category.

F. RANDALL: So MLAs are treated differently. Is that what you're saying?

A. BARNARD: They would be, yes.

F. RANDALL: Why would that be the case?

A. BARNARD: In Alberta's case — it's just as I say — the concept of the total cost of employment. In the public service case, the percentage increase is shown in a separate schedule. It's about 19 percent of salary; that's the average for the benefit costs.

F. RANDALL: I just don't understand why they would report CPP pensions for MLAs but not for anybody else who's on the reporting form. It doesn't make sense to me. It's a mandatory contribution that has to be made for everybody. I just don't agree with that. I think it should all be the same.

K. JONES: Further to that, in the case of the other reportage processes, in order to look at the amount of money expended to each position, we really have to look at what you call overheads — the contributions — which are being identified here under MLAs for that position: the contribution for the pension, for MSA, for dental and for any other benefits, such as car benefits and things like that. That really gives the true picture of the cost of a particular position in government. If we're going to evaluate the government cost, we should not be just lumping those things into overhead; we should actually apportion them directly to the entities that are getting the benefit, such as any particular position in the government.

THE CHAIR: I have three people on the list, and we're getting close to time. So be quick, Joy.

DEPUTY CHAIR: I like the idea of reporting what we earn in some sort of legitimate form that is all-inclusive, but I think I would support what Barry says in that it is important that we include under MLAs exactly what we benefit from. I also like the way of columnizing it. I think it is our pay and that special allowance we get — the $32,000 plus the $16,000; plus our capital-city allowance, but listed as a capital-city allowance; our in-constituency travel allowance; and the amount that those of us earn through being a Chair, House Leader, Whip or whatever — and that's it. Oh, and benefits, too. But benefits should be calculated the same way that they're calculated for taxable benefits for income tax.

K. JONES: Plus all travel expenses.

DEPUTY CHAIR: Yes, you can list travel expenses, but they should be listed under a separate item.

THE CHAIR: As long as they're clearly shown as being travel expenses.

DEPUTY CHAIR: Yes. And anything that has to do with our constituency offices is completely separate.

B. JONES: Just for clarification, I'm wondering if Alan was suggesting that in the current reporting of indemnities and allowances paid to members the benefits are included at this time. I thought I heard you say they are, and yet I don't know if the figures support that.

A. BARNARD: I don't believe the pension benefits are included, and I don't believe the so-called employer portion of health plans and things would be. Your own contributions would be, of course, because they'd be part of salary.

B. JONES: Somehow the totals from last year and this year should jive. I think what we're trying to do is give better information but somehow not change the total, so that the reporting structure is at least similar.

A. BARNARD: Yes. We can certainly do that by note form to indicate there is a change.

L. HANSON: Well, Alan, you're really just trying to put the information that's already being reported in a more easily read, single-page form, is that not so? Are you suggesting that information hasn't been reported in the past that should be?

A. BARNARD: The one difference would be the benefits that Alberta includes. Really we were talking about the format; that is initially what we were interested in. I must admit that I haven't picked up on this benefits column specifically until this discussion focused on it. But that would be a change in that we would be reporting more than we do currently.

[10:15]

D. SCHRECK: I think it's a good idea to move towards an isolated page on MLAs that reports more detail and is easily understood. The down side is misunderstanding. It can be unfair to some members, such as a member from the north who's going to have travelling expenses that come out of our 52 trips per year and that look astronomical relative to those of a member from the Victoria area. I think we need to appreciate that in the reporting format. It might be useful to the committee if, instead of looking at how Alberta does it, we have a sheet dummied up — not with numbers, but with the headings — to see how this concept would be applied to B.C. Column headings and the wording thereof can have connotations which either create accurate reporting or create a disadvantage to a northern member. We should look at that.

THE CHAIR: If I may, I'm going to cut off debate, and we'll get back to it next time, because it is now after 10:15. We're obviously going to revisit this at our next meeting, and if everyone's agreeable, I would like to have a motion to adjourn this meeting.

B. JONES: So moved.

Motion approved.

The committee adjourned at 10:17 a.m.

WEDNESDAY, MAY 20, 1992

The committee met at 8:50 a.m.

THE CHAIR: I'd like to call the meeting of the Select Standing Committee on Public Accounts to order. The first item of business is to approve the agenda that we have all been given. May I have a motion to approve the agenda?

DEPUTY CHAIR: So moved.

Motion approved.

THE CHAIR: The first item on the agenda is the unfunded pension liability. After our discussion of last week, the auditor general and the acting comptroller general have come forward with this sheet. Does everybody have it? My understanding is that the concerns that David expressed last week — and I agree with and share — deal with the background assumptions that would be used to arrive at the amount of the unfunded liability. It isn't something that needs to concern us. That wouldn't become public knowledge. It is purely and simply a matter between the comptroller general in arriving at the amount that he would record in the accounts and the auditor general in agreeing to it. Is there any further discussion on this, or can we call the question?

DEPUTY CHAIR: I move to so recommend.

THE CHAIR: It has been moved to recommend the draft recommendation at the foot of this page. Any further discussion?

Motion approved.

THE CHAIR: The next item is the reporting of salaries, expense payments and severance. We have another sheet of paper, one that is headed up "Schedule of Salary and Travel Expenses of 'Other Employees'." You will remember that last week we finished at the point where we thought the right place to cut might be at $50,000. Alan Barnard has also given us another sheet, the salary comparability chart, annual salaries. It will show you on the right-hand side where that $50,000 break would come. This would cut the list by what? Half, Alan, would you think? Actually, the figure I talked to you about yesterday wasn't cutting what was on the suppliers' accounts. But on salaries, if we went to $50,000 that would at least cut it in half, wouldn't it?

V. SKAARUP: It would probably cut about 5,000 people off the list.

THE CHAIR: Does anyone wish to discuss at all the proposal to increase the cutoff point on salaries to $50,000?

DEPUTY CHAIR: We capture a bunch of BCGEU people by that, right?

F. RANDALL: There's a bunch below that.

DEPUTY CHAIR: Sorry, I was looking at the first column. It's the last column.

THE CHAIR: May I have a motion to adopt the recommendation?

D. SCHRECK: So moved.

Motion approved.

THE CHAIR: Let's deal next with the proposed layout of MLAs' indemnity, capital city allowance, etc. Alan has prepared a schedule for us, which you should all have. It looks like this. It's recommended that we consider reporting these items in this fashion because it brings everything into the one schedule and divides it into clearly defined categories. As I understand it, the amounts that wouldn't be in here are non-ministerial travel expenses and per diem travel allowances that are different from capital city ones. Or would you put those into capital city?

A. BARNARD: The things that will not be reported in here, Mr. Chairman, will be, as you say, the MLA travel, the in-constituency travel, the MLAs' constituency office allowance and benefit costs — the cost of pensions and things of that nature would not be reported in this schedule.

THE CHAIR: Are the costs of the benefits, etc., reported in the salaries which we've just dealt with?

A. BARNARD: They will be reported as an overhead cost in terms of salaries to the extent that they're known. I understand that the pension cost for MLAs is calculated at the time they retire, not during the time that they're serving.

THE CHAIR: I'm sorry. The salaries of civil servants are shown gross, not including benefits.

A. BARNARD: That's correct.

THE CHAIR: So we're proposing to show the MLAs in exactly the same style.

A. BARNARD: Correct.

F. RANDALL: I'm not too clear. I got a letter that said that the stipend was around $32,500 and there was $16,000 tax-free expense allowance. Why is that split out like that? I mean, they've got it all in one lump. The salary is $32,500, isn't it?

A. BARNARD: Yes. The statutory payments are as scheduled in the Legislative Assembly Allowances and Pension Act, and we have lumped the two together and called them sessional indemnity.

F. RANDALL: Why don't we split them out in two columns, and have one column that shows the $16,000 as an expense allowance?

D. SCHRECK: If there's room on the page. . . .

THE CHAIR: Years ago the federal government instituted an arrangement whereby they would receive one-third of their income tax-free. Then they put through sections which allowed all other groups of elected people to do the same thing. So a school trustee's stipend is, in the normal course of events, two-thirds taxable and one-third tax-exempt. This is exactly the same thing. The MLAs' expenses that they incur are paid. So really, to me, the $48,000 is the amount of the salary. It just happens that one-third of it is tax-free.

A. BARNARD: These are all scheduled amounts in the act, and you will notice that ministerial salaries are included in the sessional indemnity figures. So this is really the total indemnity paid to any MLA in one figure.

F. RANDALL: Okay. Thank you.

THE CHAIR: Just going back to someone who is paid an additional amount as a caucus chair, is that included in the sessional indemnity?

A. BARNARD: Yes.

THE CHAIR: So how did someone get up to $87,000? Because he was the leader. Okay.

A. BARNARD: I beg your pardon, I erred there. The statutory salary for ministers is in the third column. It's the additional amounts in there for.... I think you'll find the note on the bottom of the schedule: "'Sessional indemnity' includes annual indemnity, expense allowance and salary authorized by sections 2, 3 and 5...of the Legislative Assembly Allowances and Pension Act." So it does not include ministerial salaries.

[9:00]

L. HANSON: Parliamentary secretaries as well as chairmen.

THE CHAIR: Yes. I also see that the salaries of both the Speaker and the Leader of the Opposition were included in sessional indemnity rather than statutory salary.

DEPUTY CHAIR: That's because they're not cabinet; they're not executive council.

THE CHAIR: You don't think that's confusing, Alan?

DEPUTY CHAIR: Where else would he put it?

THE CHAIR: I would have thought that the amount of the sessional indemnity would have been the same $48,000 for everybody, and all the additional sums paid for other duties, such as being the Speaker, Leader of the Opposition or caucus chair, would have been included in the statutory salary column.

A. BARNARD: We can certainly do that. There's no problem — whichever way the committee feels is the best way of handling it.

B. JONES: There are a number of others, as well as parliamentary secretary, Whip and House Leader, that might be better shown in another column for special allowances.

THE CHAIR: We'll just put them in with the statutory salaries. So the amounts for everybody who gets something more than the basic indemnity — for being either a minister, a Whip or a deputy Whip — will be in that one column?

B. JONES: Column 1 would be all the same.

THE CHAIR: Yes, column 1 would be all the same.

G. MORFITT: If column 1 was all the same, you could collapse column 1 and column 3 and just have a note saying that $48,000 of the figure was sessional indemnity, instead of having a column with the same figure repeated all the way down the page.

THE CHAIR: Yes, you could. But my preference — I don't know why — would be to have them separate.

B. JONES: Mine too.

DEPUTY CHAIR: That's a politician for you. They insist that the lower figure is always the one that prevails.

D. SCHRECK: See what happens when you take an accountant and make him a politician.

B. JONES: It must be right if Fred and I agree.

THE CHAIR: May I have a motion to recommend this format as amended?

H. LALI: So moved.

THE CHAIR: Alan, one other point has come up. In the last column but one we wonder whether that should be legislative committee "expenses" rather than "fees." They are paid as expenses, aren't they?

A. BARNARD: I'm not absolutely certain. But when you see the rounded amount of the figures, it would appear to be a fee payment rather than straight expenses...

THE CHAIR: Yes.

A. BARNARD: ...because expenses would tend to vary, depending on people. It's probably a fee in lieu of expenses. But we can certainly check that out and make the terminology right.

THE CHAIR: Exactly the same way that a capital city allowance is.

D. SCHRECK: It's the same amount. My recollection is that standing orders describe a capital city allowance as an allowance, but the same amount of money for

members of a committee while the committee is in session is described as a fee.

THE CHAIR: It's been moved that we recommend this format as amended. Any further discussion?

Motion approved.

THE CHAIR: The next item that we were discussing was the cutoff point on payments to suppliers.

A. BARNARD: I think the issue was the two grants recipients.

THE CHAIR: Oh, yes, there are grants and contributions as well, aren't there?

A. BARNARD: Mr. Chairman, you were asking for some information vis-à-vis the number of pages of reporting that would be reduced if we were to move to a lower limit of $25,000 and $50,000 in reporting grants. Our estimation is that there would be 33 fewer pages if we moved to $25,000, and 55 fewer pages if we were to move to $50,000.

THE CHAIR: Do you know how many fewer pages there are going to be if we go to $15,000?

A. BARNARD: Sixteen pages.

THE CHAIR: The total number of pages at the moment.... I wouldn't want you to get from 56 down to 1. We've got to save the public accounts.

A. BARNARD: There are about 104 pages at the present time.

THE CHAIR: So the status is that there are presently 104 pages. The cutoff is $10,000. All amounts of $10,000 and greater are listed. If we were to move that cutoff point to $15,000, we'd reduce it from 104 pages to 88. If we were to increase the cutoff point to $25,000, we'd reduce it to 71 pages. If we were to increase it to $50,000, we'd cut it in half; we would be down to 49 pages.

I'm not sure that what we're trying to do is to make them smaller. That's not the object of the exercise. The object is to have them meaningful and not put in a whole lot of meaningless data. I welcome comments.

DEPUTY CHAIR: The briefing document says: "Raising the reporting level to $15,000 would reduce the section by 16 pages but summarize only an additional 0.11 percent of the total dollar value of payments to suppliers." I don't want to get confused here. By supplier do you mean the recipient of the grant?

A. BARNARD: That's correct. We consider supplier payments as being the whole range, whether they're grant recipients or suppliers of goods and services. It's our terminology that is the problem here.

V. SKAARUP: The point we're trying to make in that paragraph is that for those amounts there are a lot of people, but the dollars involved are very immaterial. Only one-tenth of 1 percent of the total grant payments go to those people who would be dropped off the detailed reporting if we raised the limit to $15,000.

DEPUTY CHAIR: I think that's the key: what impact does our raising the limit have? How much information are we precluding the public from receiving? It's one-tenth of 1 percent of financial reporting.

K. JONES: I think it's very important that all grants be available to the public so that they know openly where grant money is being put, because grant money is not like paying bills. Grant money is a discretionary item that is a matter of the government's decision. That should be seen to be open and aboveboard. Therefore I don't think you should be reducing any of the reportage of any grants. That would really bring the question: what about this slush fund that's being generated here?

B. JONES: I have the same concerns as Ken. I really wonder at times about the amount of savings that are talked about. We're told that the time and work required to complete this section of *Public Accounts* will result in cost savings. I really wonder if the cost savings are relevant in terms of public accountability. Even though the total amount of money may be small, the number of agencies and groups that are impacted are large. That's why there's a savings in the number of pages. Those pages all represent the government accounting to whoever is interested in how these grants and awards are distributed. It's only through that information that the public can assess whether the government is operating fairly or unfairly. I don't know what the savings might be. I'm open to be persuaded that it's really in the public interest to have these kinds of savings at the expense of public accountability.

THE CHAIR: Alan, if I may first.... I'm a little confused. When I phoned you yesterday, it wasn't about how many more would get knocked off at a certain dollar level. I wasn't talking about grants and contributions; I was talking about suppliers.

A. BARNARD: I'm sorry. I was working on this one.

THE CHAIR: When we talk about grants and contributions — I don't happen to have my *Public Accounts* here — it makes it sound as though these amounts of money are paid out for no consideration. That's not true, is it? Or is that true?

A. BARNARD: There are two groups of payments involved here. One is contributions, which are usually with some conditions attached to them. Others are outright grant payments. Again, the recipients of the grants are in fact expected to do certain things with the money. There are always expectations that there will be some, I suppose, remote service provided rather than a direct service provided to government. You'll notice that there are quite a number of social-service-type contributions listed in this particular group, and to....

THE CHAIR: The Abbotsford School Board had better spend the $71 million on educating the children.

A. BARNARD: Precisely.

In response to Mr. Jones's comment about the accountability for grants, all of the grants, of course, that are made out of the Lottery Fund are all reported separately by the lottery branch. They produce an annual report that covers everything that they have granted. The other things in here would be things that are made through programs, such as education. . .and grants to hospitals and social service organizations. The main contentious grant issues, historically, have always been the ones made out of the Lottery Fund, not the regular program.

THE CHAIR: There won't be any more of those, will there?

K. JONES: This is maybe just a clarification on the upcoming budget. We've got grants being handled through the lottery granting program — what's left of it in Government Services. We also have funding going to Municipal Affairs, Culture and other areas that's not coming directly out of lottery control but out of general revenues. Those are not accountable through that process any longer; therefore it's essential that it be in this process.

The other aspect of this is access to information or the information process. We're going to have to provide this type of information to the public if we're going to have access to information. Therefore costing will be required from either one source or the other. It's important that that be taken into consideration when we're looking at costing.

[9:15]

THE CHAIR: Does anybody else wish to speak to this subject? I have a feeling that the wish of the committee is to leave it as it is, at $10,000. That seems to be appropriate. We won't look for a recommendation there, then.

The third subject was the listing of payments to individuals, firms and corporations for supplies and services rendered.

F. RANDALL: Do we have a handout on that, Mr. Chairman?

THE CHAIR: Wasn't there a briefing paper prepared on that? I thought there was, but it's not in my book.

A. BARNARD: We were suggesting a parallel to the grants and contributions in terms of supplier payments. Currently we're reporting everything over $10,000 to any one supplier.

K. JONES: There wasn't one prepared.

THE CHAIR: No, I guess not. I must have been dreaming it.

D. SCHRECK: In any event, it's best to leave it so that it's the same for grants and suppliers. The division between what's a grant and what's a contract is, to some extent, a function of how the arrangement is made. We call it a grant to a hospital but a contract if we hire somebody to clean the building. If you're the loser, and you want to look up what your competitor got the contract for, it can in many cases be more important for the small contracts than for the big ones. For the same reasons we had for the grants, I think we are better leaving it alone.

K. JONES: I concur with that thinking. We should just move ahead and affirm the $10,000 limit. So moved.

THE CHAIR: Everybody agree? There isn't any need for a motion; we just carry on.

K. JONES: There will be some documentation that we've reaffirmed the existing limit?

THE CHAIR: Oh, by all means. Make a motion that the present limit. . . .

K. JONES: I did.

THE CHAIR: I'll accept it. Have you all heard the motion that we've reaffirmed the limit of $10,000 for grants and contributions and suppliers?

Motion approved.

THE CHAIR: Included in this, I'd like to, if I may, bring up the subject of the method of recording separation arrangements. I don't know if the rest of the committee got a copy of a letter of April 15. I think you did.

K. JONES: No.

J. MOLSBERRY: I gave them out last week as well.

THE CHAIR: Alan, perhaps you'd lead us through this, if you would. I'm not sure where one goes to actually look for it, other than the report that came out of the government personnel services division.

A. BARNARD: As you see from the letter, under item 1, *Public Accounts* actually does report the total amount of severance settlements in the schedule of payments to individuals, firms, corporations for supplies and services rendered. The amount that was reported in the 1991 *Public Accounts* was $2,134,914.

THE CHAIR: So they are listed as individuals?

A. BARNARD: No, it is listed as a lump sum, as a one-line item of severance and settlements. Now, in addition to that, the government personnel services division is required to report annually to the Legislative Assembly on the number of severance arrangements made for those people not covered by collective agreements and the range of equivalent months' salaries. I think you will find attached to the letter there is in fact that report which says the numbers of severance,

number of employees and the range of equivalent months' salaries paid out.

THE CHAIR: And that again is for the year ended March 31?

A. BARNARD: That's correct.

THE CHAIR: So has the GPSD — or whatever it is — report for '91 been tabled yet?

A. BARNARD: I don't know, Mr. Chairman.

K. JONES: Mr. Chairman, I think that as part of our openness in government, we should be including, along with the salary tables and contract tables, the amounts of severance identified to the persons so that there's a fair and understandable process for people wishing to find out the total amount of contribution by government to those people. We have the case for the MLAs, for instance. The MLAs' severance should also be included on this list of indemnities and allowances — that's just a matter of open reporting — as should substantial funds given to deputy ministers, because if that's going to be considered as part of their package when they take on an order-in-council appointment, the whole package should be reported.

DEPUTY CHAIR: I'd like to distinguish between employees covered by a collective agreement and others. I have no idea whether this $2 million includes the employees covered by collective agreement.

A. BARNARD: It does not.

DEPUTY CHAIR: I think it's important that we ensure that the collective agreement stands as the document for reporting on matters affecting bargaining unit employees. Our public service employees have access to severance if they can't get a job after layoff, if there's no other job for them. That's standard across the board in the collective agreement and should remain so for reporting.

K. JONES: That's already reported in the contract anyway, which is public information.

DEPUTY CHAIR: In the collective agreement, right?

K. JONES: Yes.

A. BARNARD: I was just going to point out that when the last government looked at this issue it in fact had Judge Nemetz come in and do a complete review of all of the termination payments and make some recommendations, and it is on the basis of the judge's report to the government.... This is his recommendation in terms of how these things should be reported. So at the moment we're following that. I'm not absolutely certain, but I believe there might have been some concerns about reporting individual amounts because of some kind of precedent-setting, because of peculiar circumstances and that sort of thing. The best person to answer these questions, if you've got some specifics as to how this operates, is Mr. Gary Moser, the assistant deputy minister in charge of the government personnel services division. I am really not in a position to answer too many of these questions.

G. MORFITT: Alan really expressed most of my views. I just would add that that study by the Hon. Nathan Nemetz was pursuant to David Poole's severance package and the public interest in that, and he conducted quite a thorough review. It took him about six months or so to complete it, and I would suggest if you wanted to pursue this further perhaps you should read that report. It's not that long and it's quite readable, and I think you'd find some interesting observations on his part.

F. RANDALL: I was going to ask for a copy of the report. Before we spent a lot of time on it, I'd like to read the report.

THE CHAIR: That sounds good. Perhaps you could arrange for us each to receive a copy of it, and we could put this back on the agenda at a future date. Everybody agreed? Good, thank you.

The next item on our agenda is the unrecorded lottery grants.

G. MORFITT: This issue is discussed on pages 30 and 31 of the January 1992 report from my office. I have at the table with me Mr. Russ Jones, a manager in my office who is familiar with the background to this issue. The crux of the matter is that lottery grants and payments are not in the normal course to be made by the Lottery Corporation. The net proceeds from lottery tickets and so on are to flow through the Lottery Fund account, which is part of the consolidated revenue fund of government. Then the government, at its discretion, makes the lottery grants from that lottery account.

In this particular case some $6.6 million was disbursed directly by the Lottery Corporation and did not flow through into the consolidated revenue fund account. I understand that payment was made at the behest of officials within the government. Therefore when the Lottery Corporation completed its own financial statements, it showed those payments not as an expense but as an outflow from net income. In other words — and rightly so — they recorded down to net income from operations and then showed these payments out as described here: "Paid on behalf of the province of British Columbia." By so making that reference, they were intimating, I believe, that these payments were made by them directly but at the behest of officials within government.

As we've indicated in this write-up, the Lottery Act provides that "all proceeds from the conduct and operation of lotteries by the province" shall be paid into a special account called the Lottery Fund. In this case that didn't happen.

On page 31 we state our concerns about the matter, being threefold: first, the grant payments were made by the Lottery Corporation apparently in contradiction of the Lottery Act and without the normal review process being applied; secondly, payments were not recorded and reported as Lottery Fund special account

transactions; and thirdly — and to some people, perhaps most importantly — details of the grant payments were not publicly reported. I understand that this situation has been corrected. But I'm not familiar with the details of that, because we haven't audited any change at this point.

I'd be pleased to discuss anything further about it that you would like to hear about.

[9:30]

THE CHAIR: Can we deal with this in two areas. First of all, what will the future practice be, and are there any concerns about anything happening in '91-92? Secondly, could members of the committee receive a list of the payments made by the B.C. Lottery Corporation in this fashion? Alan.

K. JONES: I believe we already have that.

THE CHAIR: Oh, do we?

F. RANDALL: Where?

K. JONES: The breakopen. I got it from the minister, anyway.

THE CHAIR: It's the breakopen only?

K. JONES: It's the breakopen only.

A. BARNARD: This is the Halfback program.

THE CHAIR: This is just the Halfback program.

K. JONES: So the program is basically. . . .

THE CHAIR: Dead.

K. JONES: The program has been cancelled. The pay-out of the program is being made from ongoing funds in this budget year to the tune of, I think, $7 million. It will be wound down. I think that eliminates the problem. It has been identified by the Attorney General as being a problem, and the ministry has now eliminated the program. I don't think there's much more needed as far as action from this committee or even from the government. They've done the job that they had to do.

THE CHAIR: Okay. So these amounts here were the Halfback or breakopen payments only; there was nothing else.

Alan, is there anything more to be said?

A. BARNARD: I don't think there is, Mr. Chairman. The initial concerns were really whether the payments to the charitable organizations or community organizations designated by the vendor of the ticket were truly commissions or grants. Most of us came to the conclusion that they were definitely a grant, and therefore the payments were not proper.

The issue came to light because, as Mr. Morfitt has mentioned, the Lottery Corporation's own financial statements did not include them as an expense but as a disbursement of lottery proceeds. As soon as we discovered that, we started work on correcting the situation. This, I believe, is the resolution of it now. As far as I'm aware, the ministry has taken all the action that is necessary, and so has the corporation.

B. JONES: I assume that when the auditor general raises questions of a particular ministry, it's standard practice that there's a follow-up and a reporting from the ministry on the disposition. I assume that's yet to happen, and that's the end of it after that happens.

G. MORFITT: That's a good point. I have not received any advice as to the disposition of this. I've heard about the disposition, but I haven't seen anything. I'll request something in writing from the ministry to settle the matter. Certainly before any matter is carried forward or referred to again by my office, we always touch base with the ministry or corporation responsible and get a full update. That will happen.

K. JONES: Maybe we need to set down some policy guidelines for reporting on such action, following the auditor general's report. Ministries that have been identified should report action taken to meet that to the auditor general and also report what progress they're making towards other actions that they haven't actually completed.

THE CHAIR: I'm not sure that I would see us doing that, but following through on what the result would be. It's very appropriate for this committee to ask what has happened because of a question raised by the auditor general.

K. JONES: Can we not make a policy recommendation to government to tighten up the process of reporting?

G. MORFITT: The Clerk knows what the agenda is to be for the Public Accounts meetings. Together with the comptroller general and others, he will make sure that people are here, for example from the Lottery Corporation, in this case, or from the ministry that's responsible for the Lottery Corporation, or in connection with the coming matter, the B.C. Hydro and Power Authority preferred lending, someone from B.C. Hydro or the ministry responsible for B.C. Hydro, to discuss what has happened with these issues since the date of my report. In the normal course, you would hear, certainly verbally, from them directly as to what action they've taken. That seems to be the best way to handle it rather than you asking them to write you something and get a whole bunch more paper.

THE CHAIR: I'm not sure that that's what Mr. Jones was asking.

K. JONES: I was asking that we set a policy that they have to report to you, the auditor general, in a written report stating the status of the action regarding the concerns that you've expressed in your reports — that there be some sort of reporting process. Because what

you're suggesting would only be effective as long as we're in session here.

THE CHAIR: I think that my problem may be that, from my own knowledge, I know there's always a reporting response function; at least there always is in business, and I presume that it happens here. The auditor brings up a point, they put it in writing and the corporation responds to it. And that happens here, doesn't it?

K. JONES: I would just like to get a clarification. Is that actually a procedure? Is there a time-limit on those by which reporting shall be made, either completion or a progress report?

G. MORFITT: Our office follows up, as a matter of course, all matters raised by our office with any ministry or Crown corporation. We ask, in fact, for written responses from everyone. In connection with matters relating to the public accounts, I most often will receive a response from the comptroller general's office on those issues. On other side issues, I'll get a response directly from the other bodies.

We ensure we get responses on everything. If we don't get a satisfactory response in our view, it will be brought up again in the next annual report. There is no time-limit per se, because the only reporting that my office does is on an annual basis under the current rules, so that any response I get I really don't need until the following year.

F. RANDALL: The concerns were mentioned in this report here, and it's been indicated that there is going to be a request for a response to what's happening now. Why could we not get a copy of that response? You could, in effect, bring it to our attention that this is no longer a concern.

G. MORFITT: Right.

F. RANDALL: I mean, that's all we really need, isn't it?

G. MORFITT: I'll pursue getting it on this particular issue. I'll pursue obtaining a response forthwith, and presumably as soon as I get that, I'll report back to the committee.

K. JONES: My concern is actually broader than this specific one. It's the process by which action is monitored following your report. I don't think we, as representatives of the people, should be waiting for a year or more for further action or report proceedings — for action by a ministry or by a body of the government that you're responsible for. I would like to suggest that we find some vehicle to improve that reporting process as a process, that there's a period — maybe every three, six or four months — during which it is required, by whatever agency is identified, to report progress or completion.

THE CHAIR: Alan, do you have any comment on this discussion?

A. BARNARD: The only comment I would have is that the process of follow-up on the audit reports has traditionally been left to the auditor general and, to some extent, to our office. If we feel that there's a significant issue out there, we will follow up on it as well. It becomes a matter of this committee's desires: whether or not you have a formal response to those follow-ups in addition to what is being carried out by our two offices.

B. JONES: I would have a concern if there wasn't a standard reporting procedure in place that seems to be working over many years. I have much less concern about the time-lag with respect to reporting. I think what's critical here is that the auditor general is having good working relationships with the ministry, and there is reporting. I think if the concern had come from the auditor general, I would certainly share that concern. But I don't really see a problem with this.

K. JONES: I just wanted to take it from.... A role of the auditor general in trying to ask for information and reporting from the ministries or commissions is that it be a requirement that they do so on a regular basis so that there is some accountability process, because right now a ministry can say: "Pass the auditor; I'm sorry, I'm too busy." They can just ignore it.

THE CHAIR: I don't think that's the case, and I'd be interested in....

K. JONES: I know you've got good rapport, but beyond that there needs to be some sort of commitment.

B. JONES: That doesn't happen. You might not like the answers, but you get an answer.

A. BARNARD: I think, Mr. Chairman, that there are occasions where the ministries and even our office and the auditor general's office may disagree over a particular issue. The auditor general can make recommendations, but it is up to management to manage. If they do not accept the recommendations, they would normally say so to the auditor. The auditor is then free to make whatever additional reports are necessary. But a lot of these questions are not black and white; there are an awful lot of areas where, as I say, there are legitimate differences of opinion. In some cases, I suspect government will not wish to accept the recommendations of the auditor general. We've seen it happen in the past, and I have no doubt we shall see it happen again.

THE CHAIR: George, do you have any last comment on this subject? Do you feel this...?

G. MORFITT: I think that the theory is a very good one. In practice, though, things are working pretty well. The recommendations that my office has made over the years have been largely accepted. As I said before, in any cases where I think they should be and they have not been, I don't sit idly by and not make some additional comments. So in practice we're doing quite well. I think Mr. Jones's comment here that if I was

concerned I would bring it to this committee is probably valid.

THE CHAIR: And we can visit it later.

G. MORFITT: Yes.

THE CHAIR: Before we move on, there will be something given to the auditor general with respect to the matter of the unrecorded lottery grants, so he's had some official notification.

G. MORFITT: I'll pursue getting a response.

THE CHAIR: Thank you very much.
Moving on to item 4, B.C. Hydro and Power Authority preferred lending.

G. MORFITT: This matter is discussed on pages 29 and 30 of the January 1992 report from my office. I have with me at the table Mr. Frank Barr, executive principal in my office in charge of the auditing of public bodies. I would ask Frank if he would summarize this matter.

F. BARR: This is a matter that doesn't directly affect the financial statements of the government — unless Alan corrects me. In the summary level financial statements, I believe the treatment of Hydro is correct. In the fiscal agency loan, they're included in fiscal agency loans. These preferred fundings are not included as equity in the consolidation. It's a question really to do with Hydro's financial statements and whether it's a debt instrument or a capital instrument. It has some importance to Hydro.

They would probably speak to the subject better than I can, but I think there are two main issues. Again, Alan may be able to expand on these issues. They result from whether this preferred funding is treated as a capital item — not as equity — or whether it is treated as a debenture, a debt item. There are two main issues. If it's considered to be debt, then Hydro requires a sinking fund. The other issue has to do with the appearance of Hydro's financial statements for its rate-setting process. Treated as capital, it gives the Hydro balance sheet an appearance more comparable to those of utilities that go to the financial world for investment capital. So those are the two major issues having to do with the financial statements of Hydro.

The current situation is "no change," as we understand it. Hydro at the moment is considering it to be more equity than debt. They have a legal opinion from their internal legal house that supports their opinion that they don't require a sinking fund to pay off the debt.

[9:45]

DEPUTY CHAIR: Can you just tell us what a sinking is? Can you just expand on this?

F. BARR: It's an amount that they put aside each year to meet the debt when due. So if you were to borrow $100 million, you might put $5 million away for 20 years to accumulate interest to repay the debt when it becomes due.

DEPUTY CHAIR: But you make no payment on the debt in the interim?

F. BARR: No. You set that up. You pay the interest or whatever else is due, which is a payment from Hydro to the government every year under certain situations. "Distribution of preferred funding" is the way it's now entitled. It was initially entitled as a dividend. If it's a debt — debenture interest — then it would be treated more as interest.

So there are a number of accounting pronouncements at the moment that deal with this issue, all by the CICA: (1) there's a group called the emerging issues committee at the CICA. The emerging issues committee takes fairly urgent issues that cannot await the due process of handbook update and makes temporary recommendations. They have made recommendations dealing with instruments of this nature or similar instruments. In our view, it would indicate that this preferred funding is more in the nature of debt than capital, which has been our position all along. There is also an exposure draft dealing with the subject of financial instruments; that goes through due process and eventually ends in authoritative guidance in the handbook which becomes generally accepted accounting principles.

The responses for that exposure draft are not due until June or July. Handbook pronouncements that deal specifically with the issue wouldn't be available until the fall or winter at the earliest. As I understand it, Hydro currently in their financial statements are going to make no change for the March 31, 1992, statements. They will treat it exactly as they have always done. But they are actively looking at it for change in their '93 statements, in view of the emerging issues committee report and the exposure draft classifying what becomes a financial instrument, and when there is a financial instrument, what is an equity one and what is a debt. That's the background, anyway.

G. MORFITT: So here you have a situation where the government's financial statements record the money that has been paid to B.C. Hydro as a fiscal agency loan, and Hydro records it slightly differently, not as a loan to be repaid.

A. BARNARD: Mr. Chairman, I think it might be useful for the committee if we were to step back from some of the detail in this and take a look at what triggered this transaction in the first place.

When B.C. Hydro privatized B.C. Gas, the government asked for a payment of funds from Hydro into the provincial consolidated revenue fund — in fact, the privatization benefits fund. At the same time this put kind of a cash squeeze on Hydro. So there was a need to make funding available to Hydro, and there is an arrangement, as Mr. Barr has mentioned, with the Utilities Commission in terms of the rate-setting that Hydro does in setting power rates that requires a certain debt equity ratio. Hydro does not have any shares at all, so there is no shareholding in Hydro by anybody. The government is just a sort of residual owner of Hydro.

In order to accomplish what we wanted to do — "we" being Hydro and the government — this particular funding mechanism was purposely structured in order that it was a hybrid between debt and equity. We've called it "dequity" at times and all sorts of other funny names. It was structured purposely to do this, so that in the eyes of Hydro and the Utilities Commission, this particular funding was indeed equity, but in the eyes of government, it could be treated as a loan.

I haven't got all of the details on the transaction, but I believe there is a promise to repay, which is a loan transaction, but there is not a certain date for this. It is a repayment when Hydro is able to make the repayment. The interest payments are to be paid out of earnings only if earnings are there to pay them. So, again, it's not a pure loan in the sense that anybody could call the loan because the interest payment isn't made or in the sense that Hydro is required to pay the interest if the earnings are not sufficient. But if the earnings are sufficient, then they do pay. So this hybrid animal that was created, and was entered into the government's books as a fiscal agency loan and into Hydro's books as preferred funding.

THE CHAIR: That sounds like a conspiracy.

B. JONES: Everything is a conspiracy.

THE CHAIR: It's an income debenture, that's what it is.

A. BARNARD: Hydro's financial statements have a clean audit opinion, and as Mr. Barr has mentioned, they have a legal opinion that says the transaction is legal and does not require a sinking fund.

The other issue that Mr. Barr has mentioned with respect to the emerging issues paper and the exposure draft put out by the Canadian Institute of Chartered Accountants on financial instruments is out there. In the event that the exposure draft does in fact become part of the CICA handbook and part of generally accepted accounting principles, then Hydro will have to conform.

In the meantime, it's my understanding that Hydro wishes to retain the accounting for these funds the way it has them in its books right now. So I hope that helps to clarify what is a somewhat arcane little piece of accounting.

THE CHAIR: Before I go to the speakers' list, may I ask you one quick question? If the government were to treat it as an investment in, what would that change in the world? It would just move from the fiscal agency loan to the investment group. Is that right? David?

A. BARNARD: That's true.

V. SKAARUP: Except there's no provision to have an investment in B.C. Hydro, because it has no shares; therefore there's no way we can make an investment in it. We'd have to change B.C. Hydro's act to give it a share capital structure.

THE CHAIR: Oh. My speakers' list has David first.

D. SCHRECK: Well, I find this fascinating from the viewpoint of how — with no intent to offend — accountants label balance sheet transactions and the legal framework which allows for that labelling. But I must say that as an economist I'm left with the question that Alan started to touch on, and that is: what difference does it really make in the real world? I must say that I'm challenged to find any, save and except for the one comment that you made, Alan, on this transaction being done for the purpose of a debt equity ratio requirement. Could you elaborate on that?

A. BARNARD: I would not want to shoot off the hip on this one, because I really do not know all of the details. If we want to get into this, I think we should have Mr. Klassen come over and act as a witness to the committee in order to give Hydro's views and to talk more reasonably about this.

D. SCHRECK: Apart from that being the driving purpose, quite frankly it strikes me that all of the rest of this is a matter of. . .

THE CHAIR: Semantics.

D. SCHRECK: . . .how one structures one's balance sheet, and from a non-functional point of view. . . . I would be interested in understanding the underlying functional nature of it.

THE CHAIR: Perhaps we could move this item forward to our next meeting too. It won't take us terribly long, but I think it's a good thing for the committee to understand what's involved.

K. JONES: Does somebody here now have, or would we be able to obtain, the borrowing ratings of B.C. Hydro and the province of British Columbia?

V. SKAARUP: B.C. Hydro borrows through the provincial government, therefore it shares the same credit rating that the government has, which I think is. . . .

THE CHAIR: An old AA-plus.

K. JONES: It has no private borrowing as other Hydros?

V. SKAARUP: It doesn't borrow on its own. The Ministry of Finance acts as a fiscal agent.

One of the benefits of the fiscal agency loan program that the province operates is that the cost to taxpayers is reduced, because borrowing on behalf of these Crown corporation agencies is done by the province through that program, so they get the benefit of the province's lower rate. If they were to borrow individually, many of them would be borrowing at a much higher rate of interest than is currently the case. That would then necessitate a higher level of grants from the government to these organizations, higher prices charged by those organizations or reduced services provided by those organizations.

K. JONES: I just wanted to get clarification, because my recollection is that Hydro-Québec and Ontario Hydro have been able to actually borrow on the basis of their capabilities at a lower rate than their provinces. Can you verify that for me?

V. SKAARUP: I don't know if that's the case, but we could check into it.

K. JONES: That's why I suspected that B.C. Hydro would probably be able to have a better borrowing capability independently. Is it correct that at the present time B.C. Hydro is borrowing everything that they borrow through the province?

V. SKAARUP: Except for normal trade accounts receivables, of course.

K. JONES: Yes.

DEPUTY CHAIR: Where I'm having trouble accepting that this is just accounting is on page 30, the second-last paragraph of George Morfitt's report. What we have here. . . . If we term it a loan and we see it as a loan in government, but B.C. Hydro doesn't, and they're not saving toward repayment of that $235 million, then I as a consumer of hydro or as a taxpayer may be faced years down the road with them owing us money but not having any way to repay it. Therefore, there are consequences that flow from that, not only as a taxpayer in having to borrow on the public market but also as to what it means to the sound financial viability of B.C. Hydro. That to me isn't just an accounting doodad; that's what I see as the consequences. Is that what you are saying, George?

F. BARR: The actual term is for 20 years. It's my understanding that Hydro would have to be insolvent at that point in time not to be able to defer repayment. There may be other technicalities in the agreement, but that's the substance of the issue.

DEPUTY CHAIR: But 20 years from now, if they don't have any sinking fund or savings account for repayment, and we are in the middle of dam construction or have cogeneration plants on every corner, and all of a sudden B.C. Hydro has to pay back $235 million, does that not have consequences for us in terms of ongoing operations and B.C. Hydro's viability?

K. JONES: It will be windmills by then.

G. MORFITT: The point is one of the two points that we've brought out in our explanation of this matter. It's a very valid comment you make. What happens at that point is that you either find the money or you don't pay it back. Certainly there's no ongoing recognition of a liability and the putting aside of funds on an annual basis which affects rates today so that you'll have the money available 20 years from now to make the repayment. That sinking fund requirement isn't being taken into account in the determination of rates and that sort of thing.

[10:00]

THE CHAIR: I was just going to comment, when Ken was talking about interest rates, that the amount of interest B.C. may pay on indebtedness compared to Ontario is not just a question of what their rating is and what our rating is — or Ontario Hydro's rating or the province of Ontario's rating. It has a great deal to do with the question of liquidity: how many of these ventures are out there, how easily they are sold, what is the market on them? That will also have a significant effect on the interest rate. So it isn't just rating alone that causes the interest rates to come down. Ontario will normally, in relation to their rating, be paying a lower interest than B.C. just because their instruments are such a large part of the market, and they're regularly traded.

Does the committee wish to have someone here from B.C. Hydro? Would you like us to put it on to our next. . . .

DEPUTY CHAIR: I think that's an excellent idea, but we know that the board has just changed, as of a few days ago. Maybe we should give them two or three weeks to at least settle in. The CEO hasn't changed, but there is a new board and they are consumed with other issues right now. Perhaps two or three weeks from now.

THE CHAIR: I thought we wouldn't be getting someone from the board; we'd only be talking to someone from the. . . . Senior financial officer.

K. JONES: CFO.

THE CHAIR: Can you arrange that for us, Alan?

A. BARNARD: Yes. I'll see if I can get Mr. Klassen over here for next week.

THE CHAIR: Good.

D. SCHRECK: Mr. Chair, we are going to be sitting for several Wednesdays ahead yet, and should it be inconvenient for the representative from Hydro, I think we should have the flexibility to schedule it for one of the next Wednesdays.

THE CHAIR: Absolutely.

Well, the next item on the agenda is "Any other business."

K. JONES: Why don't you invite submission of agenda items for Monday?

THE CHAIR: Yes, by all means. If anybody has any items they would like brought up for next week. . . . Joy and I meet during the week to discuss the following week's agenda, but we welcome and look for suggestions.

G. MORFITT: If we've got a couple of minutes, we could dispose of the eighth item on this issues list, I think to the benefit of the committee, which is "Accounting for government transfers," on page 20 of the January report. If you would like us to pursue that, between myself, Mr. Dawson of my office, and the

acting comptroller general, we could, I think, deal with this quite speedily.

THE CHAIR: Right now, you mean?

G. MORFITT: Yes.

THE CHAIR: By all means. Anybody have any objection?

SOME VOICES: No.

THE CHAIR: Good. Let's proceed. Item 8, right? You have the floor, sir.

G. DAWSON: The issue involved here is that the Canadian Institute of Chartered Accountants has come up with some new guidelines in the way of an accounting statement issued by the public sector accounting and auditing committee of CICA. It has recommended that what have commonly been called grants and contributions in government financial statements and government accounting records across the country for many years be converted over to things called grants, entitlement, shared cost amounts and other types of government transfers. The purpose of this is to get these types of payments, which are generally about two-thirds of all government expenditures in most jurisdictions — payments to universities, hospitals, schools, municipalities, welfare payments to individuals — into a better way of being categorized, so that the nature of the expenditures can be better publicly disclosed for the benefit of the public.

I don't think there's any opposition to making this conversion to this new way of accounting, so our point is just to bring this out to the public and to the Legislative Assembly that this series of recommendations has been made to account for government transfers, which in our jurisdiction and most others are currently called "grants and contributions," into this new way of accounting. There are some big benefits in it, in addition to just getting them better categorized so they can be, let's say, better disclosed to the public in our own jurisdiction. They can then be compared more easily across the country between jurisdictions as to who's paying what types of grants or entitlements or other transfers between jurisdictions. But it would also help to bring about something called accrual accounting, which Fred will be very familiar with. In certain instances now, we've got situations, even in our own province, where perhaps even school districts or municipalities or other funded organizations are incurring deficits, for example. They show those amounts in their financial statements and accounts as amounts receivable from the province. If you look in the province's books, because of the way we've got our grant and contribution accounting policies set up right now, we don't show those amounts as payable to those organizations.

The other way around, the government of Canada will have amounts showing payable to British Columbia, for example, to do with established programs financing or income tax payments that they collect on behalf of the provinces, and we may not show those as receivable from the government of Canada. Yet they're sitting, as I say, in the government of Canada financial statements. So there's a lot of inconsistency between levels of government right now because of the lack of consistency in these definitions.

If we bring about this new way of recording things, we should, as I say, get better consistency in disclosure and in the matter of recording things between jurisdictions, and the whole picture, from federal to provincial to funded organizations at the local level, should be a lot more clarified and a lot more consistent.

Our point here is just to bring this matter out. If you read these couple of pages, 21 and 22, we've acknowledged here that the comptroller general's office has gotten the comptrollers — the senior financial officers — together from all the various ministries, and they're all working towards implementing this. It's going to take changes to the budgeting process, but we understand that. From what they've said, it is going to be brought about in the near future. All we're doing here is saying that we encourage the developments that are taking place in British Columbia in terms of bringing about these recommendations for improved accounting and harmonizing of how these very large expenditures are presented in the accounts and financial statements in this province and across the country.

THE CHAIR: Alan, do you wish to respond first? Joy has a question.

A. BARNARD: I don't really think there's an awful lot to add to what Mr. Dawson has said. We have also made a survey of other jurisdictions to try and make sure that we understand exactly how the criteria for deciding where a particular payment fits in terms of the classifications being proposed. We have had some difficulty in fitting some of the programs into the classifications, and we have an accountant working on this right now. In essence, we agree with the recommendations made by the CICA and are doing what we can to implement them. I can't give you a date yet, but we're certainly working towards it once we've got all the little details cleared out of the way.

DEPUTY CHAIR: Is there any consistency between the federal and provincial governments, because there's a series of transfers that take place at that level, too. I'm sure that impacts on this. Is there discussion at that exchange as well?

G. DAWSON: From the audit perspective, we've already had some discussions about not only getting consistency but getting our audits lined up so that amounts that are recorded, for example in the government of Canada accounts and financial statements, as payable to the provinces are likewise recorded in our accounts as receivable from the federal government. At the present time, we use somewhat similar categories. Grants and contributions are somewhat similarly used in most of the jurisdictions, in addition to British Columbia and the federal government, but there are inconsistencies in practice. The definitions aren't all that clear at the moment. These are better definitions. They'll give greater disclosure and, as I say, should

bring about more consistency. It's just improving what is currently being done.

D. SCHRECK: While I think the concept certainly can't be criticized, I'm fascinated by the example that you offer. This business of a school board recording a deficit as an account receivable from the province and the province not recording it as an account payable indicates more than a difference of opinion on how the accounting is to take place, of course, but indicates some future incorrect expectation about the budgeting process. It is clearly the intent that a deficit will be taken out of a future year's budget without an increase in the budget to account for that. As we discuss accounting concepts to reconcile differences between different levels of government, it may also be necessary to deal with violated expectations that underlie those different accounting concepts.

G. DAWSON: You're perfectly right. I think there's not as much communication now as there should be between, for example, the provincial government and funded organizations in that regard. By bringing in some of these definitions it's going to create, particularly from the accountant's perspective, the necessity for a lot more communication between the federal government and the province and the province and the funded organizations in terms of grants and contributions. It's going to be tremendously beneficial for all parties.

THE CHAIR: Is it going to alter the method in which budget estimates are presented or prepared so that they will tie in, agree, be done in a similar fashion?

A. BARNARD: I think it could do. As I say, we haven't worked through all of the implications yet, but there could be some accruals necessary in terms of payments to some organizations.

THE CHAIR: What sort of timetable do you think is involved in this program?

V. SKAARUP: We're targeting to resolve these issues in time for the preparation of the 1993-94 budget. That means we're trying to get this resolved by the end of the summer.

THE CHAIR: So you see us dealing with it in the budgeting process first, and it coming out in the public accounts later?

V. SKARRUP: Yes. If we get it sorted out, we may be able to make some adjustments for the '92-93 public accounts even though we didn't budget for that in the '92-93 year. To really keep track of the numbers with a higher degree of precision in terms of making sure grant payments were properly classified throughout the year as opposed to trying to go back and figure it out later. . . .

THE CHAIR: This would again flow into these listings that we discussed at the start of the meeting today. They would be shown in a more meaningful fashion.

V. SKAARUP: No, I don't think that would change that listing, because instead of calling it "Grants and contributions", we would call it by whatever the new classifications are for individual payments.

THE CHAIR: But wouldn't you have separate lists for grants, separate from contributions for which services are expected, like school boards? It surprises me that you don't take all the school boards and put them in one group.

V. SKAARUP: That is a potential modification that we could do.

THE CHAIR: All the hospitals and so on.

V. SKAARUP: If we make a change in the classifications, then it's potentially possible to change the way the grants and contributions are reported for the supplier payments, in terms of having separate lists. Again, that really depends on what the users want in terms of the lists. If that meets a user requirement, then we can certainly look at modifying that schedule.

THE CHAIR: We have got to adjournment time. It would be useful for members of the committee to have a comment on it, which we would could read at our leisure, from the comptroller general's office, if you would. There isn't any great rush, but it would be nice for us to have a feeling about what the future classifications might be and how you would see them.

DEPUTY CHAIR: Hasn't the association published. . .? We received a substantial pamphlet on public sector accounting.

A. BARNARD: That's the one.

DEPUTY CHAIR: Yes.

V. SKAARUP: They've recommended three basic categories. In trying to deal with their definitions, the problem that we're coming up with is that most of our grant payments are falling under their "Other" classification of transfers.

THE CHAIR: You might feel it appropriate to create your own classifications. You're not bound by the institute's statements, other than on a minimum basis.

V. SKAARUP: That's what we're looking at. What we see as the most important issue in PSAAC No. 7 is the recognition criteria, in terms of when you recognize or accrue expenditures or revenues. The labelling on the logical groups is the secondary issue. You come up with labels that best fit the types of activities we're engaged in.

THE CHAIR: Two things before we go. Alan, will you have someone in your office revise this schedule the way we discussed it, so that they can put it into the minutes? The second thing is, may I have a motion to adjourn?

DEPUTY CHAIR: So moved.

The committee adjourned at 10:16 a.m.

WEDNESDAY, MAY 27, 1992

The committee met at 8:47 a.m.

THE CHAIR: The meeting of the Select Standing Committee on Public Accounts will come to order. We have an agenda before us. May I have a resolution to approve it?

DEPUTY CHAIR: So moved.

Motion approved.

THE CHAIR: The first item on the agenda is B.C. Hydro and Power Authority preferred funding. Is there someone here from B.C. Hydro? Come on up to the table, please, and introduce yourselves.

F. KLASSEN: My name is Frank Klassen. I'm vice-president of finance and chief financial officer for B.C. Hydro. To my left is Mr. David Harrison, corporate comptroller for B.C. Hydro.

THE CHAIR: We wanted to talk to you, Frank, on the question of the preferred funding instruments and the way they are treated by Hydro in your records and the way they are treated by the provincial government in ours. Perhaps we could start off by your giving us some background as to how the instruments came about in the first place.

F. KLASSEN: Certainly. The issue arose at the time that B.C. Hydro sold its gas division as part of the privatization program. There are two issues fundamental to us in terms of ratios which we must maintain, which are part of our rate-setting requirements and requirements established by the BCUC in terms of establishing what rate increases would be allowed by B.C. Hydro and the sufficiency of our revenue.

There are two prime ratios that we have to achieve right now, one relating to the income statement, which is an interest coverage ratio, and the other being on the balance sheet, which is a debt-equity ratio. The interest coverage ratio is simply the excess earnings after payment of all costs and finance charges, expressed as a percentage of the finance charges. Right now, that is 1.3. In other words, our earnings should be about 30 percent of the amount of finance charges we pay in a particular year, and that's how the Utilities Commission establishes what are reasonable rates for us to charge in terms of revenue.

The reason for that interest coverage ratio is to provide protection to the bondholders of B.C. Hydro. While in the last several years we have borrowed under the provincial fiscal agency agreement, previous to that — in the seventies, eighties and before — we issued in our own name with a provincial government guarantee. So there are a number of bonds still outstanding with B.C. Hydro's name guaranteed by the province. Therefore the bondholders are looking for adequacy of financial results in order to meet the interest payments.

The other requirement we have is a debt-equity ratio, and that's been established by the Utilities Commission at 80:20. That is, for our total capitalization 80 percent would be the maximum allowed in debt and 20 percent in equity, retained earnings and deferred credits.

When the gas division was privatized it would have had two impacts on us without this agreement. First, the gas division at that time produced a net income for B.C. Hydro of about $20 million a year. Therefore there would have been an impact if all of the proceeds from the gas sale had gone to the government. The sale of the gas division in approximate terms was about $740 million. Off of that was about $460 million of debt attached to those assets, and the remainder was equity relating to the assets.

The agreement with the government, first of all, was that essentially all money over and above the actual debt associated with those assets would be transferred to the government's privatization fund. However, if that were to happen, there would be two impacts. One would have been an income impact. Our income would have been $20 million less than otherwise, and that would have reduced our interest coverage ratio. Therefore we would have had to apply for additional rate increases as part of that.

The other impact would have been on our debt-equity ratio. Our debt-equity position would not improve, because in essence equity was being taken out of the company. So what was arranged was the preferred funds agreement, which is a form of equity or preferred funds. Ideally, we would have liked to have had a preferred share issue, but under the Hydro act there is no provision for share capital.

What the preferred funds agreement and structuring it as a preferred share agreement did was, in essence, reduce our finance charges, because we were able to reduce our debt — the $235 million involved. Although it was transferred to the government, the government put the debt that we owed them under the fiscal agency agreement against that transaction. So it, in effect, reduced our debt load and therefore brought us within the 80:20 ratio. By reducing our debt load, it reduced our interest costs. Although we pay that money out to the government, we pay it out in the form of a dividend if money is available out of earnings in any particular year to pay that dividend. So that re-established the 1.3 interest coverage ratio. In essence, the agreement left us neutral out of the impact of the gas sale and did not have any impact on electrical rates out of that process. That's how the agreement was structured.

The agreement is also structured in terms of both the interest side of the agreement and the repayment of principal, on the basis that either can be deferred by the B.C. Hydro board of directors at any time. If, for example, our earnings are insufficient in any one year, we do not have to pay the cost of the preferred funds for that year. It can be deferred and rolled into future years on a cumulative basis.

Similarly, on a repayment basis, at the 20-year term of the preferred funding agreement, if B.C. Hydro is insolvent at that time, the board of directors may again defer repayment of that $235 million principal until B.C. Hydro is in a financial position to pay those funds. As a result, the agreement ranks below unsecured

creditors for B.C. Hydro, if we ever got into an insolvency position. On that basis, it replicates an equity form of financing. That's why we've categorized it more as an equity agreement than a debt instrument. That's been reviewed by our external auditors, Deloitte and Touche. They have reviewed it against standard GAAP accounting policy and have agreed with that treatment.

THE CHAIR: Just for my own information — and perhaps other members would like some items you dealt with clarified — when you said the interest rate coverage was 1.3, are the earnings before interest charges greater than 1.3 of the interest charges?

F. KLASSEN: That's correct.

DEPUTY CHAIR: I have a question to the deputy auditor general. Does our government record this is a debt?

G. DAWSON: Yes. The government's accounts and financial statements record this as debt receivable to the provincial government.

Mr. Chairman, I would like to just point out that Mr. Morfitt is out of Victoria today, and we have other senior audit staff here to answer questions on the various topics on the agenda. I'll point them out as they come up.

With me at the table now are David Lau and Randy Smith, two of the senior staff in our office that dealt with this particular question.

F. RANDALL: You mentioned that the sale of the gas division was $740 million. What was the debt? I missed that.

F. KLASSEN: Approximately $460 million. These are approximate numbers.

THE CHAIR: Was that $460 million of B.C. Hydro's debt that was transferred with the thing, or was it a debt instrument that you took back from. . . ?

F. KLASSEN: That was the debt actually associated with the assets being sold. The rest was retained earnings of the gas division, equity of the gas division and premium on sale, in essence.

F. RANDALL: Why was the decision made to sell? Was that a wise or good financial decision?

F. KLASSEN: That's a policy decision which I can't address.

DEPUTY CHAIR: I have a couple of questions. Forgive me for being simplistic about it, but you suggested that the $20 million in lost revenue would have increased rates, and that this transaction you went through prevented a rate increase because of that. So we now have a situation where there's a $235 million debt that we don't have any really secure way of repaying, all just to avoid a rate increase based on $20 million?

F. KLASSEN: There is a repayment of it over a 20-year period. Obviously the $235 million is not a large amount in relation to our total debt.

DEPUTY CHAIR: Which is about $4 billion — right?

F. KLASSEN: Our total gross debt is $8.8 billion, with sinking funds of about $1.9 billion, for a net debt of about $6.7 billion or so. So it's not a large item in terms of the rate implication, either. It would approximate 1 percent on rates — a one-time increase of 1 percent on rates.

DEPUTY CHAIR: You're obviously familiar with the auditor general's criticism of this. If rates were to have increased 1 percent, would the auditor general's concern have gone away?

THE CHAIR: No.

F. KLASSEN: I'm confused in terms of the question.

THE CHAIR: They're not related, Joy.

DEPUTY CHAIR: Why aren't they related? You gave us a two-part explanation. One was to compensate for this lost revenue. Tell me why they're not related.

THE CHAIR: If the revenues had been increased, they might have met these various ratio tests, but that is irrelevant to the fact that they're showing this $235 million as a form of capital and the government is showing it as a form of debt. That's were the problem is. From the discussion it appears to me that it is a form of capital. They think of it as capital. It is used as capital in all of your ratio calculations.

[9:00]

One question: do any of your bonds default if you do not meet these ratio tests?

F. KLASSEN: No. There's nothing in the covenants of the bond which would cause it to default.

THE CHAIR: If this $235 million was shown as a debt it wouldn't have any effect. Hydro wouldn't come tumbling down or anything.

F. KLASSEN: It wouldn't have an immediate effect, but over a period of time it would have an effect in that the existing bonds would probably start trading at a lower price and a higher interest rate in terms of the credit quality.

THE CHAIR: Even though they have been guaranteed by the province?

F. KLASSEN: That's right.

THE CHAIR: You stated — and I would like it confirmed — that the dividends are cumulative.

F. KLASSEN: That's correct.

THE CHAIR: Cumulative forever?

F. KLASSEN: For the 20-year term of the agreement. If we're not in a position to be able to repay it at the end of 20 years, then they can be cumulative forever. The risk is really with the government.

THE CHAIR: On the $460 million debt that applied to these B.C. Gas assets that were transferred, did you transfer the actual debt instruments to B.C. Gas?

F. KLASSEN: No, we took the cash out of that sale and paid down debt as it matured or established sinking-fund provisions to pay the debt down with that cash.

THE CHAIR: Does B.C. Gas owe you anything now?

F. KLASSEN: No, they don't.

D. SCHRECK: I can see the argument that the net effect of the transaction on rate-setting and ratios is small in the overall scheme of things, but it strikes me that it is very large in the treatment of the net proceeds of the gas division. While the government supposedly reaped a benefit of $280 million as the result of the privatization of the gas division, the net of this extraordinary transfer back — the proceeds to the government as a result of the sale of the gas division — was only $45 million. That considerably changes the evaluation of whether that privatization was a good deal or not. The argument about whether the proceeds of the privatization of the gas division were $45 million or $280 million would depend on how one treats the expected value of the discounted stream of these dividends in the future and whether or not the $280 million will ever be repaid at the end of 20 years. To that point the auditor general remarks that it is an uncertain stream — dividends rather than interest payments — and that there is no sinking fund to guarantee repayment. In your opinion, how would you value the actual net proceeds to the government from the sale of the natural gas division?

F. KLASSEN: The net proceeds were $235 million. The issue is: where are they going to sit? Are they retained by B.C. Hydro in the capital base of B.C. Hydro, or are they sitting on the government's accounts as part of the privatization fund? The gain on sale was still $235 million, one way or the other. Even if they stayed with B.C. Hydro as contributed surplus on those assets, if you went to full-equity accounting — which has also been recommended in terms of including all of the Crown corporations as part of equity accounting — then our retained earnings and contributed surplus and equity would become part of the government's retained earnings and equity and contributed surplus. So it's a wash.

G. DAWSON: I would like to comment on that particular point. B.C. Hydro's financial amounts are already included in the government's summary, which in the private sector are called consolidated financial statements. The $235 million included in their equity is not brought into the government's equity; it's eliminated by cancelling it out against the $235 million owing to the provincial government. In the government's summary, which is the highest-level set of financial statements, this $235 million in Hydro is actually treated as B.C. Hydro's debt and not as part of their equity.

THE CHAIR: Is it actually treated as debt?

G. DAWSON: Yes. That's how the government accounts for it when it pulls together its summary financial statements.

THE CHAIR: I would have thought it just cancels out. Doesn't it?

G. DAWSON: Yes. It's treated as debt in their accounts rather than equity; therefore it cancels out with the amount receivable that's sitting in the government's general fund accounts. It isn't treated as equity, as was suggested, and picked up and added to the government's equity for the particular fiscal year.

DEPUTY CHAIR: That's why we have this controversy.

G. DAWSON: That's why we have this question. That's right, exactly.

THE CHAIR: Basically, Mr. Klassen, Mr. Schreck's question dealt with the fact that that $235 million was converted from cash receivable into an instrument that is less than certain as to income stream and capital repayment. Therefore I presume you were making the assumption that it isn't necessarily worth what its face value is.

D. SCHRECK: Well, it's an uncertain proposition. When we value the advantages or lack thereof in the privatization of the gas division from a policy point of view, they are not what they are purported to be. The nature of this transaction considerably affects how one values the privatization of the gas division. The innocent treatment of the gas division and the remainder of Hydro as two separate companies is not quite so simple if the privatization of the gas division affected the ratios of Hydro in such a way that the government was incapable of recapturing the nominal equity and had to make this $235 million payback. I am troubled by what benefit the public received from the privatization, given this description of the accounting.

THE CHAIR: I'm not sure that I agree with you completely, but I know what you're saying.

Does anybody from the comptroller general's department know if there was any consideration of this hybrid debt-capital instrument that they got back from B.C. Hydro being the asset that would be put into the privatization fund? Do you know if that was considered?

K. CHAPMAN: I'm afraid I'm not as much up to speed on this particular issue as I wish I were, and I just can't answer that question without taking it under advisement and getting back to you.

DEPUTY CHAIR: Mr. Klassen, your response, then, to the concern raised by the auditor general is just that there is no meeting of the minds.

F. KLASSEN: From B.C. Hydro's point of view, and from our external auditors' point of view, it is an equity instrument on our balance sheet. Therefore there's no requirement for a sinking fund, and it's being appropriately treated on the balance sheet.

DEPUTY CHAIR: From what I understand, 20 years from now if B.C. Hydro isn't solvent, and we come as government to collect our $235 million, then we don't get paid. We get paid after the workers. We're an unsecured.... We're way at the bottom of the list. You're saying, in that way, it's entirely the government's responsibility.

F. KLASSEN: Ultimately, all of the debt of B.C. Hydro is the government's responsibility — both the guaranteed debt and the fiscal agency debt.

DEPUTY CHAIR: But this is a special situation. I get a sense from you that you don't think this is distinguishable at all from other government operations or transactions.

F. KLASSEN: The $235 million?

DEPUTY CHAIR: Yes.

F. KLASSEN: It's distinguishable in that it has different provisions against it, as opposed to a pure income debenture or debt instrument. But in terms of the value to the government, the government would value it and put it on the balance sheet at either the book value or the market value. In terms of the market value, there would be no reason to say that the $235 million could not be paid. B.C. Hydro is very profitable these days and has more than sufficient cash flow to service existing debt and pay substantial dividends to the province.

THE CHAIR: What is the interest rate on the instrument?

F. KLASSEN: It varies, depending upon how it's financed by the provincial treasury. I believe that for a while it's been in shorter maturities, and the provincial treasury is terming it out into longer maturities — but approximately 10 percent.

THE CHAIR: So the instrument itself doesn't call for a fixed rate of return. Does it call for a computed calculation?

F. KLASSEN: Whatever the costs are that the Minister of Finance has incurred in providing it to us.

THE CHAIR: But he didn't incur any to start with, because he already had the money from the sale of B.C. Gas.

F. KLASSEN: No, the cash, in essence, has gone into the privatization fund.

THE CHAIR: I see. So it's a different dollar, and the interest or the dividend — however you want to describe it — has been paid in every year since the instrument....

F. KLASSEN: That's correct.

THE CHAIR: Will it be paid this year?

F. KLASSEN: Indeed.

THE CHAIR: Is it proper for us to ask you how B.C. Hydro is doing, seeing we've got you here? Is it having a good year?

F. KLASSEN: I can present our unaudited financial statements. We have not had the financial statements approved by our new board of directors, but the unaudited results for the fiscal year ending March 31, 1992, show $401 million net income.

THE CHAIR: Compared to?

F. KLASSEN: Compared to last year's $207 million net income.

THE CHAIR: What's your budget for '92-93?

F. KLASSEN: Next year we will be anticipating net income in the range of about $220 million.

THE CHAIR: Why was this last year so good?

F. KLASSEN: There were some extraordinary items this year in terms of treasury transactions relating to our sinking funds. There was a one-time gain on the revaluation of our sinking funds.

THE CHAIR: You normally didn't revalue your sinking fund assets every year-end.

F. KLASSEN: No.

THE CHAIR: I wouldn't have thought so.

F. KLASSEN: They are essentially set at book value. Under the new program we don't manage our sinking funds; those are managed by the Minister of Finance under trust through the provincial treasury. They have established a new program to move into what they call unitized sinking funds, where we have a unitized trust of all of the sinking funds that are established against each particular bond issue.

Also, they have what's termed extending duration of the sinking fund. As a result, they sold out a lot of the existing assets within the sinking fund on external trades, to lengthen the duration of that sinking fund. Since a lot of those bonds were acquired in previous years when long-term interest rates were around 12 percent and 11 percent — today's current rates on long-term are about 9 percent — there is a capital gain

that is associated when you sell that bond and buy a lower-interest-yielding bond for it.

THE CHAIR: How much would that gain have been, roughly?

F. KLASSEN: Approximately $55 million.

THE CHAIR: So it was still a very good year.

F. KLASSEN: Yes, it was a very good year.

THE CHAIR: In the future, from an accounting point of view, how are the sinking funds going to be valued?

F. KLASSEN: They will continue to be valued at book value or at market value when a particular item is sold.

THE CHAIR: When they're sold.

F. KLASSEN: Yes, when there's an external trade.

D. SCHRECK: What would be the impact on consideration for your ratios and rate applications if a sinking fund were to be established for this $235 million?

[9:15]

F. KLASSEN: The sinking fund itself would not have much of an impact in terms of rates or ratios. If there was a reclassification of this instrument to debt, that would have a slight impact on rates. But given the earnings that we had in the past year and the amount that's in the rate stabilization account right now, it would probably be insignificant in terms of an immediate impact. Obviously there would be a one-time impact somewhere down the line of 1 percent of that.

I think the other implication is, if that were done and it was reclassified as debt, our debt-equity ratio would move above the 80:20. Another important consideration there is that if the debt-equity ratio moves above 80:20 under the dividend arrangement that we have with the provincial government, no dividend would be paid to the provincial government. B.C. Hydro would retain all earnings for the year to start building up its equity position again, to get back below the 80:20.

THE CHAIR: How much money did B.C. Hydro borrow last year?

F. KLASSEN: We borrowed quite a bit, but a lot of it was for maturities.

THE CHAIR: How much new debt?

F. KLASSEN: I believe the net debt added was in the range of $80 million to $100 million.

THE CHAIR: So with your $400 million profit, you improved your debt-equity ratio fairly substantially.

F. KLASSEN: That's correct. Unfortunately though. . . .

THE CHAIR: Almost enough to put the $200 million into debt and not change your equity.

F. KLASSEN: No, we would go over the 80:20. The other issue to remember is that while we earned $400 million, we cannot retain that $400 million under our form of regulation. Our form of regulation not only establishes a bottom of a 1.3 interest coverage ratio, in that we cannot go below that; it also has a cap of 1.3, so that any earnings over a 1.3 interest coverage ratio go into what's called a rate stabilization account. That account is then drawn on in future years, as opposed to rate increases. So while we earned $400 million this year, we could retain only $220 million of that. Approximately $180 million has to go into a rate stabilization account, and we then draw that money out to maintain the 1.3 interest coverage ratio in future years, rather than increase rates.

DEPUTY CHAIR: That's also the logic you use for saying that establishing a sinking fund wouldn't necessarily impact the rates.

THE CHAIR: When did you last make a transfer from the rate stabilization account?

F. KLASSEN: This will be the first year that we've put money into the rate stabilization account, and we will be drawing it back out. There was a previous rate stabilization account back around 1985 to 1988; I can't be precise on the exact years. That related to export earnings. These are decisions by our regulator, the Utilities Commission. At that time they asked us to put all export earnings into the rate stabilization account and draw it out as we needed it to stabilize domestic rates. In 1989 they eliminated that rate stabilization account and introduced a new rate stabilization account, which looks not just at export earnings but at the total earnings of B.C. Hydro. They are saying that anything over a 1.3 interest coverage ratio has to go into that account to be withdrawn in future years to stabilize rates.

THE CHAIR: Is this rate stabilization account included in your equity for calculating your debt-equity ratio?

F. KLASSEN: It is; it is registered as a deferred credit on the balance sheet and is therefore deemed to be equity under the definition by our regulator, the Utilities Commission. What will happen is that $180 million will get drawn down in future years.

THE CHAIR: Not necessarily.

F. KLASSEN: Yes, the way the account works is that we cannot go for rate increases until we use up that rate stabilization account.

K. JONES: Wouldn't it be prudent for you to pay back the amount of this item that's in question and thereby reduce the amount of debt or commitment that you have?

F. KLASSEN: Well, if we pay it back, in essence what we have to do is go out and borrow money to pay it back. So that increases your debt-equity ratio. That was one of the reasons we set up the instrument; we viewed it as equity. It was part of the retained earnings of B.C. Hydro as part of the sale, and therefore we wish to keep it as equity.

K. JONES: Why would you have to borrow when you actually had a dividend you were paying and you had retained earnings?

F. KLASSEN: Well, the dividend is set by order-in-council, and we have to pay the dividend as established by order-in-council.

K. JONES: And you had retained earnings also?

F. KLASSEN: Yes. The retained earnings, in essence, will be about $60 million.

K. JONES: Well, your retained earnings could be used to pay down your debt. Why weren't they used to pay down the debt?

F. KLASSEN: They are. All funds are treated on a cash flow basis. You just manage the cash. . . .

THE CHAIR: But you apply it to the external debt first.

K. JONES: So at no time were you considering this as a liability, to pay out?

F. KLASSEN: Ultimately it will have to be refinanced, probably in 20 years' time. By that time, through retained earnings over the next 20 years, we would hope that we can build up our capital adequacy so that when we repay the $235 million we will not go over the 80:20. We would hope that over the course of the next 20 years, through our retained earnings, we can keep improving our debt-equity ratio. If you take it down to, say, 70:30, and then you repay the $235 million in 20 years, then your ratio may go up to 78:22, and you're still within the 80:20. So it gives a period of time for retained earnings to be accumulated to pay it off.

D. SCHRECK: I'd like to revisit my point on how this $235 million ties into the evaluation of the proceeds from the sale of the gas division, because the more we talk about this the more the question is left in my mind as to how this comment from the auditor general arose in the first place. When we first discussed this, my comment was that I found the accounting intriguing. But I'm really interested, from an economic point of view, in what this all means in the functional world. All I can see at the bottom of this in the functional world is this problem of determining the value of the gas division versus the value of the hydro division, and an exchange of funds here that really leaves a major question in my mind as to how correct it was to privatize the gas division. At least, if it was correct, what benefit did the public reap from that privatization in the first place?

What I'm hearing is that if the province were to really immediately reap the full benefits that were attributed — $280 million for the privatization fund — from the privatization of the gas division. . . . The only way that could have been done without this transaction would have been to make an application to increase rates in order to preserve the ratios. I don't think the public ever understood that the sale of the gas division involved a payback to B.C. Hydro of $235 million, without which there would be a major increase in rates. I believe we have unearthed here a bit of information that was not generally understood before.

THE CHAIR: Frank, just to make certain: B.C. Gas has paid to B.C. Hydro a total of $740 million in cash. B.C. Hydro has turned around and retired $460 million of their debt that was applicable to those ratios.

F. KLASSEN: That's right.

THE CHAIR: The $280 million difference that B.C. Hydro would have been able to retain. . . . When you think about what your debt-equity ratio was before, and these transactions coming in and what it was afterwards, it surprises me that you weren't able to pay out all of that to the government.

F. KLASSEN: We did pay it all out — in cash.

THE CHAIR: But why did you need the $235 million back?

F. KLASSEN: The $235 million came back, in essence, to achieve the interest coverage ratio of 1.3. Okay? In essence, when you sold gas you were selling an income stream of about $20 million a year.

THE CHAIR: And that $20 million was after the interest charges on the $460 million.

F. KLASSEN: That's right. That's the intrinsic value over and above the debt associated with the assets. So we kept the cash to pay off the debt. The remaining cash was the gain on sale, which was the intrinsic value of the income-earning potential after debt-servicing costs of the gas division. That was $235 million, after costs of privatization and pension liabilities and so on. The government wished to have that in the privatization fund. Doing that deteriorated our interest coverage ratio — not to a major extent; we're talking about a 1 percent increase in rates to make up the approximately $20 million a year. We kept it in the form of a preferred funding agreement. Therefore we, in essense, retained it on our balance sheet and, instead of showing the costs of that as debt-service costs which would deteriorate our interest coverage ratio, we show it as dividends payable at the end of the year to the provincial government. The provincial government still had the cash, and they simply took $235 million of fiscal agency debt, in essence, that was already outstanding, and earmarked it against that particular agreement.

THE CHAIR: Does anybody have any more questions of Hydro?

F. RANDALL: I'm still not clear. I asked the question: was the transaction a good deal for the public? I just got the answer that it was a policy matter. Is there anybody who is smart enough to advise us whether it was a good deal to market the gas division? Is there anybody who knows anything about business?

F. KLASSEN: Again, the question of the sale of the gas division is a provincial policy issue, which I can't address.

F. RANDALL: Is there anybody in the provincial government we could ask who knows whether it was a good deal or not? Who would you recommend we talk to?

THE CHAIR: What kind of answer do you want?

F. RANDALL: I find it very confusing. It's like a bunch of hocus-pocus. I don't know where we are on the matter.

THE CHAIR: They sold an income stream of $20 million at this point for $280 million. That's a way I look at it.

F. KLASSEN: Yes.

THE CHAIR: It's not a bad deal, actually, on the face of it. It depends how you value the $235 million that you've got to leave in there.

DEPUTY CHAIR: But that's the issue, Fred. That's exactly what we're talking about.

THE CHAIR: The issue here is for us to understand what the differences are between the way they record the instrument on Hydro's books and the way the government records the instrument on our books so we can comment to the Legislature on the propriety and the recommendations we make as to how we deal with the auditor's qualification.

F. RANDALL: Looking at the auditor general's report, he is recommending in his final conclusions that the province and Hydro again review the transactions as far as the funding goes. If we concur with that recommendation, that would mean that the two parties get together again and review it — right?

G. DAWSON: That's exactly what we recommended: that the two parties get together and try and come to some agreement as to how these amounts should be presented, what their basic nature was, the best presentation and whether there is a need for a sinking fund or not. Hydro and its auditors decided that there isn't a need for a sinking fund, because of the legal way the agreement was written and because of the projected earnings. But we still wonder. With most other fiscal-agency data in the government, sinking funds are being created. We wonder whether it would be prudent in this situation to have a sinking fund created for this extensive debt as well. That's all we're saying. We're not saying that it's wrong or inappropriate or anything else.

F. RANDALL: You're just asking that the two parties get together and review it.

G. DAWSON: Yes, and particularly the prospect of having a sinking fund to ensure that these amounts get paid back over the next 20 years.

F. KLASSEN: On the point of establishing sinking funds, we have a number of debt issues against which there are no sinking funds — shorter-term maturities of under five years and so on that do not require it.

THE CHAIR: You just roll those over, don't you?

F. KLASSEN: That's right. There isn't a sinking fund against all debt of B.C. Hydro.

K. JONES: Could you give us a little historical background on the way the gas division came into B.C. Hydro operations? I understand that it wasn't originally part of the original B.C. Power operation.

F. KLASSEN: That certainly goes well before my time. I believe it came in as part of B.C. Hydro absorbing B.C. Electric. B.C. Electric had the lower mainland gas division, so when B.C. Electric was acquired by B.C. Hydro. . . .

[9:30]

K. JONES: They were separate, though, weren't they?

F. KLASSEN: I'm not sure if the gas division was separate. I think they were treated as a division by B.C. Electric but not as a separate subsidiary.

K. JONES: They should be treated separately financially. They have basically been operated separately, haven't they?

F. KLASSEN: Yes, they have. In terms of accounting for the division, it's been on a self-sustained basis for a period of time.

K. JONES: They're a separate entity of the government, and therefore the profit from the sale of that should have flowed directly to the government. I think you said it did.

F. KLASSEN: Yes, but they are part of the corporate entity of B.C. Hydro.

THE CHAIR: They had been amalgamated previously.

K. JONES: You're saying that you're taking the profits from the sale as your profits rather than the government's profits?

F. KLASSEN: That's correct, because B.C. Hydro is a corporate entity.

K. JONES: I have a great deal of difficulty with that. They had nothing to do with the electrical operation. They were treated separately, yet you're taking the profit of the sale into your assets rather than giving them to the government.

F. KLASSEN: They were our assets, and we financed them with our debt.

B. JONES: I wonder if the witness could clarify for me any relationship between the privatization of the gas division and the agreement for consumption of gas by the Burrard Thermal plant.

F. KLASSEN: Can you be more specific on that?

B. JONES: I assume there's an agreement with B.C. Hydro, as the operator of the Burrard Thermal plant, for sales of gas from what was formerly the gas division of B.C. Hydro. I assume also that that was part of the sale agreement. I'm wondering if you could clarify the details of that part of the sale agreement for me.

F. KLASSEN: We can report back on that. I don't have the details at hand or the specifics of it. Before the sale of the gas division, we entered into long-term contracts with our division for the supply of gas to Burrard Thermal. We had that in place before the privatization.

B. JONES: How long are those long-term contracts?

F. KLASSEN: I'll have to check again. I'm not familiar with that particular agreement.

B. JONES: I wonder if I could have the details of that.

THE CHAIR: Yes, that would be useful.

G. FARRELL-COLLINS: I'm interested in knowing the valuation procedure for the sale of B.C. Gas. Was it out for public tender or auction? What was the process by which the valuation was made?

F. KLASSEN: A privatization steering committee was established, headed up by Mr. Dale Parker. A number of representatives were hired from the Ministry of Finance, B.C. Hydro and tax advisers from a number of accounting firms. An investment banker was hired as well, in terms of the marketing process. I would suggest that you ask Mr. Parker about that. He chaired the committee and ran the process. But there was an extensive marketing and bidding process, an evaluation process of the bids and an evaluation of the assets.

THE CHAIR: There were multiple bids, weren't there? There was an employee group and B.C. Gas.

F. KLASSEN: There were many bids, and I think there were three or four primary bids out of that, which then came down to the successful bid.

THE CHAIR: Does anybody else have any more questions of Mr. Klassen before we thank him and Mr. Harrison for coming here this morning? We thank you for your frank and forthright answers, and we look forward to getting further information from you as to the terms of the natural gas contracts for the supply of Burrard thermal plant. Anything else, people?

F. RANDALL: I'm just going to move a motion, if it's appropriate.

THE CHAIR: Please.

F. RANDALL: I would move that we concur with the recommendation of the auditor general with regard to the two parties getting together to review the matter, and that we receive a report back from the auditor general on the results of those discussions.

DEPUTY CHAIR: Seconded.

Motion approved.

THE CHAIR: We'll let you two go out and fight it out now.

The next item on the agenda is the industrial incentive fund, and someone is here to speak to it.

G. DAWSON: We have Mr. Errol Price and Ms. Kathy Crawley of our office. These two senior members of our staff participated in this audit, carried it out, and I believe there are some ministry officials here as well.

M. LOFTHOUSE: Mark Lofthouse. I'm a director in the business development division. On my left is Brian Dolsen, our senior financial officer and acting executive financial officer for the ministry; and on my right is Nick Geerdink, an analyst in our business development division.

THE CHAIR: Welcome, all of you. I'll turn it over to you, Errol.

E. PRICE: We do have a short video presentation on the audit that we undertook back in 1990. It might be useful for the committee for us to show this video, for two reasons: first, it would summarize the audit findings; and second, it would give a general introduction to the loan process, which might be useful.

THE CHAIR: You'll have financial statements on video soon and send them to the shareholders.

If anybody sitting at the back wishes to move forward, you're most welcome to.

E. PRICE: While people are getting settled, I might just point out that this audit was reported in the auditor general's 1991 annual report, which is the red-covered book that you have. It's on pages 165 to 178. The audit work was done during the late summer and fall of 1990, and really focused on loan transactions that took place during the fiscal year ended March 31, 1990. We're looking today at transactions that occurred almost three years ago.

I'd just like to point out before we get into the video show that the focus of the audit was on the administration of the loans. We did not look at the policy of issuing loans, i.e., we did not look at the actual terms and conditions of loans. What we were looking at was the information that was provided to decision-makers and, that is to say, ultimately to cabinet. We subsequently looked at the procedures for disbursing the loans and for monitoring the loans once the decision had been made to provide a loan.

With that general introduction, I'll hand over to Kathy, who can take you through the video show.

K. CRAWLEY: This presentation summarizes the audit of the industrial incentive fund, which is the responsibility of the minister of the former Ministry of Regional and Economic Development.

The industrial incentive fund was first set up in 1985 under the Industrial Development Incentive Act, and it is one of three incentive initiatives under this act. The small business incentive program and the tourism incentive program are the other two. We did not look at them. Initially, the Legislative Assembly approved $50 million for the fund that we did look at, and over the past five years the fund has increased substantially to $171.8 million, and this was as of March 31, 1990.

There are two categories of loans covered by the fund: loans approved and managed solely by the province are referred to as ad hoc loans; and loans made under the Canada-British Columbia subsidiary agreement on industrial development are referred to as IDA loans. The province and the government of Canada both participate in the decision-making process for the IDA loans, so we included both the ad hoc and the IDA loans in our audit.

The purpose of our audit was to determine whether the ministry's procedures were adequate to provide the information needed for informed decision-making and to protect the public's investment once the loan decision had been made. We also wanted to determine whether the ministry was providing appropriate information about the loans and the fund to the Legislative Assembly and the public.

Our overall conclusion was that the ministry's procedures for reviewing and evaluating funding requests were adequate and were being adhered to consistently. The result is that we felt that substantial information was being provided to the decision-makers.

We found that when the ministry disburses loans, the procedures they use ensure that the money is being used by the loan recipients as intended. However, after the loan is fully disbursed, several years may elapse before repayment is scheduled to begin. During that intervening period little monitoring has been done to ensure that the projects were proceeding as intended. However, at the time of our audit, the situation was in the process of being rectified by the ministry in conjunction with the Ministry of Finance and Corporate Relations.

We looked at the ministry's annual report for 1990, and it provided only limited information about the fund. It did not provide details about the individual projects that were funded, the cost to the province of these projects or the results they had achieved.

Now I want to look at some details and some background on the two categories of funding. The ad hoc loan initiatives are ongoing. There's no deadline for submission of loan requests. The kinds of projects in this category are ones which do not fit into any other specific funding program. From the inception of the fund to March 31, 1990, 11 projects had been approved. Nine of these were loans, and two were investments in preferred shares. The total amount approved for these 11 projects was $105.6 million.

This chart shows where that money was approved by industry. As you can see, 75 percent of the approved funding — equal to about $80 million — is for the mineral industry. This represents the funding of two major projects: the Cominco lead smelter for $55 million and the Cassiar asbestos mine for $25 million.

Now some background on the IDA loans. As I mentioned earlier, the government of Canada is involved in the decision-making process for these loans. The application for funding under this program had to be approved by March 31, 1990, the deadline that was specified in the Canada-British Columbia subsidiary agreement on industrial development. From the inception of the fund, 21 projects had been approved at March 31, 1990, and the funding for these was in the form of loans. The total amount approved for the 21 projects was $42.1 million.

THE CHAIR: Was that total or just the province?

K. CRAWLEY: That was the total for the IDA loans. There were no preferred shares.

DEPUTY CHAIR: No, but what share of that was paid by our province as opposed to the federal government?

K. CRAWLEY: This was the province's share.

DEPUTY CHAIR: Okay.

K. CRAWLEY: This chart shows where the $42.1 million in loans had been approved by industry.

THE CHAIR: I can't read that. Could you read them out for us?

K. CRAWLEY: Okay. Value-added forest products was $20.8 million; metal products was $4.9 million; transportation equipment got $3.8 million; mineral products was $6.5 million; chemical products was $3.3 million; and "other" was $2.8 million.

DEPUTY CHAIR: Did any of the people who got ad hoc funding also get IDA funding?

K. CRAWLEY: No.

DEPUTY CHAIR: They're separate?

K. CRAWLEY: They're separate.

E. PRICE: I might just point out that in the actual report on pages 168 and 169 all the projects that have received approved funding are listed.

[9:45]

K. CRAWLEY: Back to the purpose of our audit. We will first look at what's done to provide for informed decision-making.

To briefly take you through the loan review process, there are three major phases. The first is determining the basic eligibility of the project, which is done by the ministry. The federal government also gets involved here for the IDA loans.

Second is the detailed review, which is in the form of a business case. The ministry applies a set of loan principles — for example, commercial viability and need for funding — and then determines the degree to which each of these is met.

Third is the review and approval by cabinet and its committees. We found that the projects we reviewed all met the basic eligibility guidelines. For ad hoc, this meant that the project was not eligible for funding under any other program. For IDA there were three levels of eligibility criteria. The first looked at the applicant; the second looked at the project or the activity; and the last looked at the costs that were inside the project.

DEPUTY CHAIR: Fred, is it okay if we ask questions while we go along?

THE CHAIR: Yes, by all means.

DEPUTY CHAIR: When you say that they're not eligible for other funding, does that mean that the applicants have gone through the process of finding out they're not eligible elsewhere? Or do they go straight to this group and have the cabinet determine whether they're eligible somewhere else?

K. CRAWLEY: Maybe I should turn that over to the ministry to answer.

M. LOFTHOUSE: In the case of many of them, they would come into the ministry under an established program. If I can give an example of it, in some instances there would be a situation whereby the federal government would have concerns about the project, not from the standpoint of the viability or the benefits to British Columbia but about the impact of another firm, say, in Ontario. So that would be a situation whereby it wouldn't fit under the industrial development agreement, but it would be consistent with provincial objectives, so it would go into the ad hoc stream.

K. JONES: Further to that, what was the basis of these loans? Were they intended to support value-added industries or primary industries as well? I'm looking at some of these names. It looks like there was some primary industry funding rather than just value-added improvements that Economic Development would normally be involved with.

M. LOFTHOUSE: In the case of the industrial development agreement and its established programs — the predecessor program to that was the business expansion program — they were involved primarily with a manufacturing process and value-added — any type of diversification initiative. In the case of ad hoc loans, they could get into the primary sector if it was considered to be a significant regional project.

THE CHAIR: Carry on.

K. CRAWLEY: After the projects met basic eligibility, the ministry reviewed them to determine if they'd met certain criteria. These criteria or loan principles include: "Will the project be commercially viable?" We found this criterion was consistently reviewed.

"Do ad hoc loans provide net benefits to the province, for example, in terms of jobs, purchases and exports?" We found that all analysis showed that projects would provide some benefit, but information was not gathered and summarized in a consistent manner.

Then for IDA loans: "Do loans significantly increase economic activity?" We found it difficult for the analysis to demonstrate that this had been met, because there was no definition of what "significant increase in economic activity" would be.

"Are there any negative effects on existing business?" We found detailed reviews addressing this criterion in the loans we looked at.

"Does the project really need the funding?" Here we found analyses which calculated the minimum level of funding needed to make the project viable.

"Can adequate security be obtained to protect the province's investment?" We found all ad hoc and IDA loans had been secured. We noted that the ministry may take a less secure position if, by doing so, investors are encouraged to proceed with the desired project.

The completed analysis was presented to the provincial credit committee — prior to June '89, to Treasury Board. The committee reviewed the submissions, then passed on its recommendations to cabinet, which made the final decision as to how much and on what terms to fund. Then orders-in-council formally recorded the decisions. For IDA loans, the same process was used, with the addition of a review and recommendation from the federal-provincial management committee prior to presentation to the provincial credit committee.

Now we'll take a look at how the ministry protects these investments. There are two phases to the protection. The first is disbursing the loans, usually in instalments as the project proceeds. The second is monitoring the projects once all the funds have been disbursed. For disbursing loans, we found that the loan terms were generally met before moneys were paid out. When the ministry felt it necessary to waive specific terms, the reasons were documented and approved. The ministry used standard loan agreements. Some of the terms were often waived for administrative reasons. The ministry has chosen the waiver system over tailoring the loans to each circumstance.

We found that no monitoring was being done on loans once the final disbursement was made. Review was triggered only if a loan payment was missed. Because loan repayments often do not start for several years, we believe that not monitoring during this period may jeopardize the province's ability to realize any claim it may have if the project becomes unsuccessful. Monitoring can be done by reviewing project financial statements on a regular basis, but the ministry had not received financial statements for most projects. For those received, reviews had not been performed. Site visits provide another method of monitoring, but site visits were not performed.

On April 1, 1990, the Ministry of Finance and Corporate Relations signed a protocol agreement with the ministry to look after the disbursing and monitoring functions of all its loans. In June formal requests for financial statements were sent out, and some financial reviews were then performed, but no site visits had been made.

Finally, we looked at reporting. We looked at the ministry's 1989-90 annual report, and we found the information limited to dollars spent, number of projects funded and estimated number of jobs created. We believe the annual report should include information about each project funded, the total cost to the province and the results expected and subsequently achieved. We asked why the ministry had published limited information about the fund. Their major concern was protecting confidential information obtained from the loan recipients. They had recently commissioned a study on disclosure issues, and the study recommendations were being considered in forming the ministry policy at the time we were doing the audit.

So that is it, Mr. Chairman.

THE CHAIR: Thank you.

K. JONES: Were you able to follow through with the ministry on the failure to have site-visit monitoring?

E. PRICE: We have not done any specific follow-up. We have invited the ministry to respond and to issue a follow-up for inclusion in our 1992 annual report. I might turn this over again to the ministry perhaps to get an update on what has happened since we did this audit.

K. JONES: Perhaps before they respond, another question is: is there any way, in the process you've identified and looked at, to verify that any of these projects were actually done? Was any product seen or did any product result from this?

DEPUTY CHAIR: A lot of chopsticks.

K. CRAWLEY: During the process of providing the loan, they did visit the sites and talk to the people. Mark, did you want to answer that?

M. LOFTHOUSE: With respect to your first question on site visits, there's now a fairly extensive program of site visits conducted by both the ministry and the Ministry of Finance. I'd say that virtually all the projects now have site visits. That's once they're disbursed. Throughout the disbursement process, there's usually a continual stream of site visits going on.

Prior to reimbursing the company for the equipment, an audit is done to make sure that the equipment has actually been purchased. The company must first go out and buy it. It has always been quite a contentious issue with a lot of companies, because they think they're going to come in and get a cheque from government to finance their expenditures. They get reimbursed, and they must arrange interim bridge financing in order to buy equipment. So there are quite a lot of site visits during the disbursement process.

K. JONES: How often do you monitor now on an ongoing basis?

M. LOFTHOUSE: I would say that we are now seeing site visits.... It varies from account to account, depending upon the difficulty that one might be experiencing with the account or whether we think there are opportunities for further expansion with the company. I'd say probably every six months we're doing that.

K. JONES: You've indicated that some are more difficult than others. How many projects are at risk, and what dollar values are involved?

M. LOFTHOUSE: The total size of the portfolio is $289 million.

THE CHAIR: That includes all four of those ones: tourism, small business incentive, IDA and the industrial incentive fund?

M. LOFTHOUSE: That's correct, Mr. Chairman. It includes the whole thing. If you take some of the small business programs which were not the subject of that audit, you'll probably find something in the low teens are having difficulty, as a percent of provision for bad debt. If you take the ad hoc programs, you're going to get much higher, probably in the range of.... You can go up to 50 percent. However, you must....

K. JONES: What sort of dollars are involved in that?

M. LOFTHOUSE: As of the end of March 1992, the ad hoc portfolio for approved funds was $144.7 million. What you must remember with some of those is that it's really quite a mixture of accounts. Some of them are very small — $200,000 and $400,000. Some of them are very big. Cominco, for example, is $55 million, and Cassiar is $25 million. If one of those accounts goes bad...

DEPUTY CHAIR: As opposed to both.

M. LOFTHOUSE: ...or you have difficulty with it, then the portfolio write-off rate shoots right up.

K. JONES: Could we continue with the rest of that? You gave us two funds.

DEPUTY CHAIR: They're listed here in your book, Ken.

K. JONES: As to risk? I'm wanting to find out the rest of the portfolio.

M. LOFTHOUSE: I'm sorry. Could you repeat your question?

N. GEERDINK: On small business.

M. LOFTHOUSE: On small business?

K. JONES: You told us the ad hoc fund was at risk 50 percent.

THE CHAIR: No, not at risk, but having valued it, they say. . . .

K. JONES: Of concern.

THE CHAIR: Of concern.

K. JONES: What about the other two?

M. LOFTHOUSE: The tourism accounts. . . . Nick, do you have a figure on tourism provisions? I think we're probably in the teens on the tourism accounts, and on the small business accounts, depending upon the type of small business program run, it can run anywhere from about 11 percent to 25 percent.

K. JONES: What about the industrial incentive?

M. LOFTHOUSE: The industrial incentive fund just deals with the industrial development agreement, which is federal-provincial, and the ad hoc accounts.

N. GEERDINK: The tourism account is around 15 percent provision at this time. That's what we've booked as of March 31, 1992.

K. JONES: Could you describe what you're meaning by that?

N. GEERDINK: You'll remember that we had a special warrant — I believe it was called that — where we increased our provision account by $86.8 million recently. Included within that were the increased provisions we needed for various programs, and the tourism program was one of those. This past year we've increased that, so that there's about a 15 percent coverage on our share of tourism loans. The tourism was a federal-provincial program, and that's our share of those tourism loans. We feel that about 15 percent require a provision.

K. JONES: That's provision for bad debt?

N. GEERDINK: Yes, provision for doubtful accounts.

K. JONES: Now the IDA. . . .

M. LOFTHOUSE: The industrial development agreement?

K. JONES: Yes.

M. LOFTHOUSE: The IDA, as of. . . . What dates are these as of?

[10:00]

N. GEERDINK: March 31.

M. LOFTHOUSE: On the IDA, you're probably looking at provision for bad debt of about 50 percent.

K. JONES: And what's the total?

M. LOFTHOUSE: The total is $23.7 million. That's the total portfolio size of the industrial development agreement, and the provision is half of that.

THE CHAIR: Could you give us a list, under these four categories, of the amounts outstanding as at March 31, 1990, '91, '92, and the amount of the provision for '90, '91, '92? I appreciate you can't do it right now, but I think the committee would like to see that.

M. LOFTHOUSE: Certainly we could do that.

DEPUTY CHAIR: With respect, the public accounts for '91-92 haven't been published yet. I can understand us wanting the information up to 1991, but. . . .

THE CHAIR: They've already got them for 1992. The special warrant went through to enable them to increase the reserve. It would just be helpful in evaluating this whole thing.

D. SCHRECK: Mr. Chair, there is a problem in terms of the matters referred by the House to this committee. The matters referred by the House to this committee are those covered in the public accounts that ended in the previous fiscal year.

THE CHAIR: Okay.

K. JONES: What are you trying to hide?

THE CHAIR: What are you trying to hide, yes. Come on, David.

DEPUTY CHAIR: Nothing — except that you have to live within your mandate, and the mandate that we have is the public accounts. There are other committees that can deal with these issues.

THE CHAIR: Let's carry on. Where did we get to? Joy.

DEPUTY CHAIR: The auditor general reports that of the 11 projects under the ad hoc funding, two involved equity funding. I remember when the special audit came out and the issue of funding to Cominco arose, there was a dispute between what the government labelled that and what Cominco. . . . Cominco said it

was equity investment, and I think the special audit said it was a loan. Who was correct at that time? Do you remember that dispute?

M. LOFTHOUSE: I don't recall the dispute. It is on our books — and Brian, you can correct me if I'm wrong — as a preferred share investment, so it is equity. I think in an accounting sense it will show up as equity on their books as well. I'm not aware of the dispute, and there really shouldn't be one. It should be equity on both sides.

DEPUTY CHAIR: No, it was the media interpretation. I'm not saying there was a dispute between the government and Cominco; it was the media reporting it as a loan, and then Hallbauer came out and said no, it was equity. But the equity is in preferred shares of Cominco as a whole...

M. LOFTHOUSE: Yes, it is.

DEPUTY CHAIR: ...because that smelter isn't working now, right?

M. LOFTHOUSE: The status of the Cominco account right now is with the job protection commissioner. He's looking at various ways to try to both restructure debt obligations and look at other types of relief for the operations.

DEPUTY CHAIR: And Cassiar? Was it a loan or a preferred...?

M. LOFTHOUSE: Cassiar was a loan for $20 million, and there was a $5 million loan guarantee on there, as well.

DEPUTY CHAIR: As just a straight loan. No equity.

M. LOFTHOUSE: It was just a straight loan.

F. RANDALL: I just wanted to ask what the status is. The comments were made in the slide presentation that it was sometimes years before any repayment was required. I guess schedules were negotiated that they start payments in two years or five years or whatever, and there was no monitoring done of that particular operation until the payments started. Then it was only monitored if they were in arrears in their payments. What's the status of that now? What's happening now?

The other question is: how long is the period before payments start? What's the longest period negotiated with regard to...?

M. LOFTHOUSE: With respect to the ad hoc initiatives, they were very much tailored to the individual needs of the project. In most instances you would see repayment starting within 12 months of the final disbursement of the loan. There are a couple of instances, but there are very few here, where it extends beyond that. In the case of one of them, which is an incentive arrangement with the company, I think it's probably about a two- or three-year period.

F. RANDALL: What's happening now with regard to monitoring? Has that improved?

M. LOFTHOUSE: There's quite an extensive monitoring arrangement with both the Ministry of Finance and ourselves now on all of the accounts.

F. RANDALL: Even prior to any payments starting?

M. LOFTHOUSE: That's correct, yes.

THE CHAIR: You spoke about a $5 million guarantee with respect to Cassiar.

M. LOFTHOUSE: That's correct.

THE CHAIR: How do you record these guarantees? The amounts of loans outstanding that were spoken of, are they the amounts of cash disbursed or does that include guarantees?

M. LOFTHOUSE: The amounts that we talked about are just loans, I believe. Is that right?

N. GEERDINK: That's correct.

THE CHAIR: How much has been done over and above that in the form of guarantees?

M. LOFTHOUSE: The guarantee figures on the ad hoc side are $9.4 million.

THE CHAIR: And on the other ones?

M. LOFTHOUSE: There were no guarantees under the IDA.

THE CHAIR: Have there been any instances where there is a guarantee without a loan, i.e., where all of the funding on the ad hoc has been done through a guarantee rather than a disbursement?

M. LOFTHOUSE: Yes, there have been. There are about eight or nine here that are straight guarantees on the ad hoc side.

THE CHAIR: Why do we do that? Why is that procedure done rather than making them up?

M. LOFTHOUSE: There was a decision by cabinet two or three years ago to try to move much more toward guarantees and out of loans. The rationale behind that was that the banks would administer the accounts, and as a result, we would not need to set up as big an infrastructure to handle the portfolio as has been necessary in the Ministry of Finance. Quite a degree of administration is required when a portfolio gets to this size.

THE CHAIR: What has your experience been on losses — guarantees versus loans disbursed? Any significant difference? None?

N. GEERDINK: I don't think there is a significant difference.

M. LOFTHOUSE: There doesn't really seem to be, from our experience.

THE CHAIR: I always have a fear, because I think that if the bank has made the loan, you're sitting back thinking the bank's monitoring it, and the bank is sitting there saying: "Who's going to spend any money looking after this? We've got a guarantee from the province."

M. LOFTHOUSE: There is a due diligence clause in all of the guarantee agreements. It is a very hot topic of conversation when you talk to the bank's lawyers, because it does require them to administer the loan with the same due diligence and process with which they administer all of their own accounts that are unguaranteed. If they choose to ignore that clause, we can refuse — and in one instance we have refused — to pay the full amount of the guarantee.

THE CHAIR: Interesting.

DEPUTY CHAIR: Your ministry's response to the auditor general's comments are reported on page 178. I'm sure you're familiar with them.

M. LOFTHOUSE: Yes, I am.

DEPUTY CHAIR: Have you published your annual report yet?

N. GEERDINK: It hasn't been tabled yet. It is ready to be tabled.

M. LOFTHOUSE: We have a copy of it.

THE CHAIR: Can we get a copy of it?

DEPUTY CHAIR: One of the matters that you predict is exactly what Fred is addressing: that you're going to change your monitoring mechanisms or devices. Is that about to occur?

M. LOFTHOUSE: It has been changed, but really, now it is the primary responsibility of the Ministry of Finance in the loan administration branch. We do work with them on that; we do have resources available to help them on that. But a decision was made about two years ago, in 1990, to divide the front end of these types of arrangements from the back end, i.e., the monitoring end. The Ministry of Finance is primarily charged with that monitoring now.

DEPUTY CHAIR: Their loan administration branch.

M. LOFTHOUSE: That's correct.

K. JONES: With regard to Cassiar, specifically, and then Cominco, what are the terms of these loans — the Cassiar loan, first of all — and what are the chances of being paid out?

M. LOFTHOUSE: I'd have to get back to you with the specific terms of the loan. I believe it is a commercial rate loan, but I'd have to get back to you on that. Cassiar is in receivership. We have a receiver in there now trying to sell it. He has been successful in getting a bid for it from the Black Swan group out of Australia. We are in the process of selling that mine, in combination with the Ministry of Finance — because they are primarily responsible for the receivership process. We hope we'll be successful with that within the next two months.

K. JONES: What's the term of the loan?

THE CHAIR: That's what he's saying: he doesn't have that.

K. JONES: Oh, you don't have that.

M. LOFTHOUSE: It's the same with Cominco's. I'd have to get you all the details on those agreements.

K. JONES: What risk factor do you give Cominco?

M. LOFTHOUSE: I think we'd have to take that under some advisement and get back to you.

D. SCHRECK: Mr. Chair, I don't think it would be in the interest of either any company or the public to speculate here on the likely success of any individual loan. I would not want to be a principal in a company and have public officials speculating on whether I'm going to make good on the loan. My understanding of the bad debt ratios is that it is based on experience, not on speculation on future performance.

DEPUTY CHAIR: I agree with David completely. It's unfair to put you in that position. Let me approach it from a different point of view. What process did you go through to determine whether to make a loan or to invest in Cominco? Was it always a request for investment as opposed to a loan?

M. LOFTHOUSE: I can talk in general to that. With respect to the specifics on Cominco, it predates me. I was not involved with the structuring of that investment. However, in the two instances where we have made investments, it has been designed to strengthen the balance sheet of the company so they can attract additional debt; whereas in most instances that we deal with under the industrial development. . . .

THE CHAIR: You are the additional debt.

M. LOFTHOUSE: That's correct. In most instances the company has its equity in place. It has its bank financing in place; and there is a gap to be filled. That is traditionally where we in government have been.

In the case of Cominco and one other, it was designed simply to strengthen the equity position of a company so that it could attract the debt and other equity investors. It is not done very regularly.

DEPUTY CHAIR: In the case of Cominco, was it federal funding they attracted? What other debt did they attract?

B. DOLSEN: They did get federal funding, too.

DEPUTY CHAIR: I'm sorry. What was the other investment?

THE CHAIR: Cassiar.

DEPUTY CHAIR: No, that's a loan.

M. LOFTHOUSE: No, it was Three Buoys Houseboat Builders.

DEPUTY CHAIR: And that's gone, right?

M. LOFTHOUSE: That's correct.

K. JONES: I would like to go back to the comments made by previous members. . . .

DEPUTY CHAIR: We're still current members.

K. JONES: Yes, by previous speakers. I think we have a responsibility in this role as public officials for the taxpayers of the province to know what type of risk the taxpayers' money is at and whether it is of concern to a company that has come to the public for borrowing or for equity investment. That is a public factor. It should be our responsibility to know what risk there is for our money that we're entrusted with by the public. That's why I wanted to explore that, and I think it's very proper for us to do so.

[10:15]

THE CHAIR: We are getting close to quitting time. I think that the points are valid on both sides. We should think about it. Certainly we are interested in the evaluation of both the auditor general and your own department as to percentage risk rates. Maybe we don't go any further than that; maybe we do. Clearly yours is the primary responsibility with the Ministry of Finance to look after the assets of the loans.

One last question, if I may. Since the reports earlier this year on the matter of the province's finances and the administration of assets and so on, has there been a tightening up of the processes and procedures, or was the tightening up already in place? Did the people administering these loans, etc., react to the reports from Peat Marwick?

B. DOLSEN: You're dealing with the current report from Peat Marwick?

THE CHAIR: Yes. That and the previous auditor's report.

B. DOLSEN: I think we reacted more to the auditor general's report, because it did identify that we had a weakness after we disbursed the loans. Up to disbursement we did four or five site visits with quite heavy monitoring, then there was a gap. In response to that, with the Ministry of Finance we set up an extensive post-disbursement process. The Peat Marwick report actually, on the administrative side, states that all loans examined had been made in accordance with legislation and the approval process established by Treasury Board. So by the time Peat Marwick came, we really had the system in place for monitoring.

THE CHAIR: The catalyst was really the previous auditor general's report.

B. DOLSEN: Yes.

THE CHAIR: So, do you feel comfortable now? Do you feel that everything is being done in a very businesslike, safe and secure manner, that all proper procedures are taking place?

B. DOLSEN: Yes.

THE CHAIR: And the auditor general's department, have you had a chance to go back in and evaluate the present procedures?

E. PRICE: We have not had the chance to go back in and specifically evaluate. I would state, though, that certainly if what the ministry says is being done is in fact being done, then I believe that would satisfy the concerns that we have. We have not specifically gone back in and audited.

DEPUTY CHAIR: And the annual report should demonstrate that.

K. JONES: When will you be going in?

E. PRICE: We do not at this time have a specific date for going back in to respond to this. As I mentioned, there will be an update from the ministry in the current annual report that will indicate the status.

K. JONES: You don't have a schedule for follow-up monitoring.

E. PRICE: No.

THE CHAIR: May I have a motion to adjourn?

B. JONES: So moved.

Motion approved.

The committee adjourned at 10:18 a.m.

WEDNESDAY, JUNE 3, 1992

The committee met at 8:49 a.m.

THE CHAIR: I call the Select Standing Committee on Public Accounts to order. The first item on the agenda is compliance with the Financial Information Act. We have Roger Brown here, from the auditor general's office, who has a handout for us, first of all. I'll ask him to pass it around.

G. MORFITT: This matter was dealt with in our 1991 annual report, the report with the red cover. We've got an information package for you this morning that deals with our report and the act itself, and also a presentation that will give you a synopsis of the act, what it's supposed to provide to the public, what our audit for compliance with the act did and what the results of that audit were.

Mr. Gordon Dawson, sitting next to me on my right, is an executive principal in the office. You met Mr. Dawson before. He and Roger Brown have both been very active not only in this audit but also in going around the province over the last number of months speaking to a whole variety of groups about this information act. They'll tell you more about that. This information act has been a very useful project on our part. We think that you'll find this to be an interesting presentation this morning.

G. DAWSON: Good morning, everyone. Roger Brown has just provided the handout packet to each of you. This packet was given out over the past winter months to approximately 500 attendees at a series, as George indicated, of Financial Information Act information seminars that we presented at eight different locations around the province.

I'm going to explain the handout packet to you first, so you can have that for a reference. As you open it up, it has six items on the left-hand side for quick reference: a copy of the Financial Information Act and order-in-council 223, which is pertinent to the act; a financial information regulation, which is the latest version; the latest version of the Minister of Finance and Corporate Relations directive that relates to the Financial Information Act; and a little brochure that we gave out around the province that talks about our particular office. On the right-hand side you have a stapled-together package of over 100 transparencies, which we actually went through in our information seminars around the province.

In addition to the information in the packet, you've got four additional pages. These represent our next transparency on the screen in front of you. The last three pages will be the last three transparencies, but we've given them to you for information purposes, so you can make notes on them or whatever you wish during our very brief presentation here this morning.

We're going to show you some of the information that's in your handout packets, just to run through them. The purpose is to explain a little bit more about what the Financial Information Act is all about, just to give you an overview, and our audit findings with regard to our audit of the Financial Information Act regulation and directive.

On the next transparency we indicate a brief summary of the key information pertaining to the act. This page indicates who is subject to the act. Essentially there are five groups: colleges, institutes, universities; Crown corporations; hospitals; municipalities and regional districts; and school districts. What is required to be prepared pursuant to the Financial Information Act? That is essentially what's called a statement of financial information, which includes audited financial statements plus four schedules: a schedule of debts; a schedule of guarantees and indemnities for each organization; a schedule of salaries over $35,000 and related expenses; and a schedule of payments to suppliers of over $10,000 during the course of the past year of the organization. This transparency indicates where the organization is supposed to be made available. It's at the head offices of each of these organizations for a fee of $5 within six months after the end of the fiscal year of the organization. To whom? It's to members of the public. Why? Because the Financial Information Act regulations and directives require it.

Now we'll turn to what the Financial Information Act is all about. We hear a lot these days — and I think it's welcome to hear this — about open, honest and good government. I think the Financial Information Act. . . .

K. JONES: That's what we keep hearing.

G. FARRELL-COLLINS: We're still waiting for it to happen.

THE CHAIR: Gordon, can I just hang on a second? This transparency comes where?

G. DAWSON: It's the third one down. It's actually page 06. The pages are numbered at the bottom of the transparencies so you can refer to them. As I say, you'll have to jump around in your package, because we're only going through some of them here this morning.

On page 6 we just wanted to mention what the Financial Information Act is all about. Funded organizations, public sector organizations, are in fact stewards of public funds and other resources provided for their use by the taxpaying public. Following from that, there is a need for accountability back to the public about the use of those funds and resources. Therefore one very important accountability instrument is the Financial Information Act.

We've summed up what we think the act is all about. It requires government organizations and corporations to produce annual financial reports and to make them available to the public. There are two key ingredients here, and that's what we focused on in our audit. Thus our audit focused on whether the annual financial reports were being produced and made available to the public.

We just want to mention a little bit about how long the act has been around. It's not something new, like the freedom-of-information legislation. This act has been around for over 30 years. It was originally called the Public Bodies Financial Information Act, but then it

had a name change in 1979 to the current name. The current versions of the act, regulation and directive were brought into effect in 1987 and 1988, and the versions that you have in your packet are the right-up-to-date versions with all the changes to the act, regulation and directive.

We'll just mention a little about each of the act, regulation and directive. The act itself identifies the organizations that are subject to it and identifies when the information can be made available: within six months of the year-ends of the organizations. Over 700 organizations are subject to the act, and the act sets out what is required, which, as I said earlier, is a set of financial statements and four schedules.

Who is subject to the act? The criteria essentially are: if an organization obtains funding or has its borrowings guaranteed pursuant to a statute mentioned in schedule 1, that organization is subject to the act; if the organization is listed in schedule 2, it's of course subject to the act; or if an order-in-council is passed — organizations can be added to the act by order-in-council, either their enabling legislation or the specific name of the organization — then they're subject to the act, or their enabling legislation itself can designate the organization as being subject to the act. These are ways that organizations can become subject to the act.

B. JONES: Is there any limit amount on a grant that has them fall under the act?

G. DAWSON: No. If they receive any amount and their legislation is mentioned in schedule 1, they're subject to the requirements of the act.

One important thing about this act that we haven't shown here but that is in your handout packets is that organizations can be added to the act — to being subject to the act — by regulation, order-in-council or other statutes, but they can't be deleted from being subject to the act unless you go back to the assembly. This is a very nice safeguard, we believe.

Flowing from that, we're going to give you a brief summary of the organizations that are subject to the act, in terms of numbers that we've been able to tally up. Pursuant to schedule 1, we've got: all the hospitals, approximately 130; school districts, 75; colleges, institutes and universities, around 20; municipalities, 150; regional districts, 20; and improvement districts, Crown corporations and other organizations, totalling over 700 alone.

In schedule 2, 22 specific organizations are named. The order-in-council I mentioned to you in your packet names four other organizations, and there are other enabling statutes that have designated organizations being subject to the act: the B.C. Diking Authority, the B.C. Trade Development Corporation and the B.C. Housing and Employment Development Financing Authority. All of these are subject to complying with the Financial Information Act.

Now, what is required to be prepared pursuant to the Financial Information Act? This transparency shows it. It's actually a set of financial statements. They have to be audited. . . .

THE CHAIR: Is that page 65?

G. DAWSON: That's page 63. And four schedules. This page nicely summarizes what is required to be produced by all of those organizations for any member of the public, for a $5 fee.

THE CHAIR: Can we just stop for a second?

G. DAWSON: Sure.

THE CHAIR: When we discussed the levels of reporting for the public accounts, there were the same similar sets of rules for these various schedules, like salaries and expenses and payments to suppliers. Could the dollar values that caused the cutoff for these only be changed by an amendment to the act?

G. DAWSON: No, by regulation. The Financial Information Act regulation is the one where the limits are set out, and they're currently over $35,000 for salaries and over $10,000 for the total payments to suppliers in a given fiscal year.

D. SCHRECK: I presume that the information that's required under the act on the financial statement side are the aggregated financial statements at year end, right?

G. DAWSON: Yes, that's right.

D. SCHRECK: So if I'm interested in seeing what would be the internal management financial statements disaggregated, say, for the case of a school district, by school or by functional line, I don't have the right to access that information under this statute.

G. DAWSON: Not pursuant to this statute, no.

THE CHAIR: Mr. Morfitt, when we passed a resolution to recommend that the limits be changed on salaries and suppliers, did you take that to mean these as well? Or were they limited to the public accounts documents?

[9:00]

G. MORFITT: I believe that was in respect to the public accounts only, on that discussion.

G. DAWSON: Okay, we'll carry on then.

I'll just skip through the regulation. It essentially requires in the financial statements that notes be included, disclosing the accounting policies and whether the organization keeps its accounts on the cash or accrual basis. That still is pertinent in a lot of organizations, because a lot of them are small. The regulation requires a schedule of debts, showing for each debt the amount outstanding, the interest rate and the maturity date. The regulation requires a schedule of guarantee and indemnity agreements, showing the names of the entities and the amounts involved. Another schedule required is the statement of remuneration and expenses. This, as we talked about earlier, is for those who earn over $35,000 per year, and their

related expenses are to be shown. And a recent amendment to the regulation called for the remuneration schedule to also include a schedule of severance agreements — this was talked about a meeting or two ago — made during the past year for non-union officers, showing the number of such employees severed and the range of monthly gross salaries represented by these payments during the past fiscal year. That's got to be shown in each of these statements of financial information given out to the public. That's a relatively new requirement. Just about two years ago that was....

THE CHAIR: That came through an order-in-council?

G. DAWSON: Through a change in the regulation. Yes, by order-in-council. Severance information has to be shown. What has to be shown, though, is just the number of severances that occurred during the past fiscal year and the range of months of severance amount paid to the individuals. If you had, for example, two, you would say there were two severance agreements, and if one person got ten months and one person got 12 months, you would say the range was ten to 12 months for the two persons. You don't show the names or the dollar amounts.

K. JONES: That doesn't tell you anything.

THE CHAIR: Well, it does if there are two of them; it doesn't tell you much if there are three.

G. DAWSON: If there were three, the same things would apply.

N. LORTIE: If there are more than two, we're in trouble.

G. DAWSON: The regulation also calls for a schedule of payments. This is well known to most people — payments to suppliers of the organization. This is supposed to be an alphabetical listing of all suppliers that received over $10,000 from that particular school district, hospital, municipality or whatever during the past fiscal year.

The latest version of the ministerial directive passed in 1988. It essentially deals with the administrative aspects related to the act, and it indicates that ministries are to provide administrative support in having the act administered, yet calls for approvals of the statements of financial information by the board of management of the given organization that's providing the information. And it calls for the information to be audited. In other words, an auditor's report or a review engagement report — which is quite rare — is to be provided.

Moving from those into our audit.... As I say, we are going quickly. You can ask questions anytime, or at the end if you wish. We used two approaches, essentially. Since there are over 700 organizations, we selected a sample of over 100 of these. We went to the responsible ministries and took a look at their statement of financial information packages to see if the content is being provided in the statements of financial information. That part of the audit dealt with the preparation.

The second part of the audit dealt with availability to the public. We actually went to the main offices of 50 of the organizations and let on that we were members of the public. We didn't say that we were from a ministry; we didn't say we were from the auditor general's office. We wanted to see if members of the public could actually get the information. We tried to obtain the information from 50 organizations firsthand, with our knowledge of what we should be asking for and the fee we should be paying and that sort of thing. We did this audit during the months of December 1990 to February 1991. We will come to some of the results in a moment.

THE CHAIR: You know how to keep us in suspense.

N. LORTIE: And they couldn't tell that you were an auditor?

G. DAWSON: We tried not to let on. Roger was involved. I was involved. We had students from our office involved. We tried to let on that we were just members of the public trying to get the information.

Anyway, in summary, we will tell you what found out here, and then we will go into a little more detail in a moment again.

Preparations. Certain organizations didn't even prepare the required information. Availability. We say here that some organizations didn't make it available, but I would say that we were being conservative there. Quite a number didn't make the information available to us. Content. A large number of the statements had incomplete information in them. Approvals. We found that approvals of the financial statements generally were there, in place and quite good, but evidence of approval of the schedules was quite lacking. We don't know if any of these schedules are being approved as they are supposed to be. A lot of them were just computer printouts that looked like they just came from the accounting department. We really wondered if the boards of management of the organizations, had approved the related schedules.

In terms of who prepared these statements of financial information and who didn't, there was one fairly large group that wasn't complying at all, and the ministry wasn't pursuing this. Apparently an amendment to the Financial Information Act is being put through the House currently — Bill 31, 1992 — that relates to improvement districts. Improvement districts are relatively small. A lot of them have volunteers participating in operating them and they apparently do have a lack of resources and offices and what have you to prepare this information. There is an amendment going through the House at the moment to delete the requirement for improvement districts to be preparing this information, but in the current version of the act, before this amendment goes through, improvement districts have been required to produce the statements of financial information, and during the course of our audit, we found they weren't. Similarly, inactive corporations....

THE CHAIR: I have a feeling Bill 31 has passed, hasn't it? Late last night.

G. DAWSON: I appreciate that information. If it has passed, then they are no longer subject to the act.

There are a number of inactive corporations, either named in the act or subject to the act by schedule 1, that have been providing the information. In terms of our legal advice, they really should be complying with the act, nonetheless, even if they are inactive. They are organizations like B.C. Development Corporation, B.C. Place, BCEC, Expo 86 Corporation and Metro Transit Operating Company. These were still live corporations, and they weren't producing the information on an annual basis. We understand, again in Bill 31, that at least two of these, the Metro Transit Operating Company and the Forest Research Council, were being deleted from the requirements of the act. There is a legal requirement that even inactive organizations continue to comply, as they have to, I believe, with regard to the Income Tax Act, the Company Act and the Society Act — those other pieces of legislation. In addition to what wasn't being prepared, a lot of schedules weren't being prepared by a lot of organizations. We think improvement to that.... That's just straight content and doing the job that should be done. A lot of the schedules weren't being prepared, and they should be.

With regard to two of the large groups of organizations that we've thought about in the conduct of this audit, that we thought perhaps should be complying with the act.... This is going a little beyond our straight compliance-with-authorities audit. We looked at the government's summary financial statements, and there are quite a number of organizations included in the government's own financial statements that aren't producing information. It's just not being produced like all these other 700-odd organizations. They include such organizations as the PNE, Duke Point Development, WLC Developments — that's Whistler land development company — the B.C. liquor distribution branch, Creston Valley Wildlife Management Authority and a few others. It's our view that at least the organizations within the government's summary financial statements — its own main reporting entity — should be subject to the act. Several aren't at the moment.

THE CHAIR: These organizations are not subject to the act.

G. DAWSON: That's right.

THE CHAIR: Because they are not Crown corporations?

G. DAWSON: Either because they haven't been added to schedule 2 or the legislation hasn't been added to schedule 1. They just haven't been added to the requirements of the act.

THE CHAIR: But I thought the act covered all Crown corporations.

G. DAWSON: No, it does not.

THE CHAIR: They have to be named.

G. DAWSON: As I say, either their legislation has to be included in schedule 1, or they have to be named in schedule 2. There isn't a provision that says all Crown corporations are subject to this act. It doesn't work that way. It's either on a specific piece of legislation or on a name basis that the act works. In other words, if you created five new Crown corporations today and didn't state that they were subject to the Financial Information Act, they wouldn't be subject to the act.

F. RANDALL: I was going to ask: has there ever been any recommendation that they all be included?

G. DAWSON: At this particular point we say that at least all government organizations that are part of the government's summary reporting entity — which includes all the main Crown corporations — should be part of the act. This is our recommendation here in that regard.

K. JONES: Mr. Chairman, can we have submitted to us a list of all those organizations that aren't reported?

THE CHAIR: We'll get to that at the end, I think.

G. DAWSON: Certainly, that can be done.

N. LORTIE: I have one question. Have you acquired this information just from visiting the 50 head offices of these organizations, or are you...?

G. DAWSON: No. In regard to who's subject to the act, this is from looking at....

N. LORTIE: I mean the ones that haven't produced the required documents or haven't given you a full accounting according to the act.

G. DAWSON: That came out of a combination of the two things that we did. We looked at about 115 or 120 statements of financial information at the ministry offices. These organizations are required not only to make them available to the public but to provide the ministry responsible with a set of this information. We looked at, I think, 115 of these submissions to the ministries and found deficiencies there, and we also visited 50 others to try to obtain the information firsthand.

N. LORTIE: I see. Perhaps they should be sending your office a copy also, besides the ministry. It would be an easy way to compile.

G. DAWSON: I'm not so sure George wants to get 700 or more of these every year, if they were all complying.

D. SCHRECK: On the sample of the relatively large number who were not complying, have you done any...? I'm interested in the reaction of the local bodies

that you personally dealt with when it was brought to their attention that it was part of an audit and they were not in compliance. What follow-up has taken place with the ministries and what action has been taken to bring them into compliance?

G. DAWSON: We've done a few things, David. Actually that's coming up. While we were doing these seminars this past winter we did a follow-up review, and we'll give you the results of that as well. It was again firsthand, not identifying ourselves as auditors or anything, and we got additional results out of that work. And we've got what the comptroller general's office is planning to do and is currently doing with regard to trying to improve the situation.

D. SCHRECK: Great.

G. DAWSON: Next I thought I'd mention that there's that large group of organizations we just mentioned that are within the government's summary financial statements that aren't required to comply with the act. One very large Crown corporation, the Workers' Compensation Board, is not complying with the Financial Information Act, although its legislation is mentioned in schedule 1 to the act. The reason for this is sort of a legal technicality. The Workers Compensation Act is mentioned in schedule 1, but the board in fact doesn't receive government funding and doesn't have any debt being guaranteed by the government.

We don't believe one way or the other, but our suggestion is that this needs clarification. If it's determined that the WCB should be subject to the act, the easy way to deal with that is to add them to schedule 2. If it's felt that they shouldn't be subject to the act, then you just delete their legislation from schedule 1 so that there's no misunderstanding.

THE CHAIR: So the past auditor general of Canada is the most difficult. . . .

DEPUTY CHAIR: Does the Workers' Compensation Board comply with any sort of public information about financial statements, regardless of the fact that they're not covered by the Financial Information Act? Do you know whether they make any information public?

G. DAWSON: They have to provide their annual report on quite an early basis — by the end of March, I think — to the responsible minister. Then the minister has to table in the House their annual report, which includes their annual financial statements. Beyond that I'm not aware of any. . . . I think they do produce an annual report to the public. . .

DEPUTY CHAIR: Yes, they do.

G. DAWSON: . . .but that's a corporate-style annual report which doesn't show information on salaries, payments to suppliers or any of these other things that are called for.

[9:15]

THE CHAIR: So that annual report would include in that earlier schedule all the stuff on the left-hand side — the financial statement — but not the stuff on the right-hand side?

G. DAWSON: That's right, but not the right-hand side. Exactly, that's right. So the status of the WCB is outstanding at the moment.

What did we find out about availability when we actually went out to these organizations? Well, this is a composite summary, in possibly humorous form, of the feeling we got as a result of trying to get this information from some of the organizations we visited.

We had the impression that they were actually preparing the information, but we had a difficult time trying to get it as members of the public. Bear in mind that a lot of people are interested in this information: union organizations, just-retired people, members of the public and people who pay taxes in that particular area. As I say, the act says it's supposed to be available to members of the public. It doesn't exclude anyone, yet we had quite a difficult time.

These are some of the comments given to us by some of the organizations. These are actual quotes given to various of our staff, and we have others, as to why the information couldn't be given to us in some cases. In a certain hospital, we were diverted to the admitting department and steered off in different directions. We just didn't have that easy a time with some of the organizations, and we were relatively knowledgeable. We knew that the act was appropriate for that organization; we did offer to pay the $5. We knew that it wasn't just a set of audited financial statements; it included other things.

R. BROWN: A lot of organizations were particularly concerned about the schedule of salaries and the fact that the names of the individuals and the level of salary were being disclosed. We found that little organizations were extremely sensitive, and a lot of them would pull out a pair of scissors and actually physically cut the names off the schedule before they would give it to us. The results depended on what part of the province you were in, the size of the organization providing the information and how willing they were to pass it along to you.

G. DAWSON: Now in terms of some numbers — people are interested in numbers when you say these sorts of things — I'd say we visited 50 of the main offices. We went to the right place. As a matter of fact, we even steered our staff and ourselves to the finance departments, accounting departments, bookkeeping departments or whatever they were called. Of the 50 organizations we visited in the actual audit — we did a follow-up a year later — seven of the organizations wouldn't provide even the audited financial statements to us. So this is a member of the public going in who can't get a set of audited financial statements. This is six months after the year-end. Twenty of the 50 organizations wouldn't give us the required schedules.

I can just give you an overview. I won't name any names, but. . . .

THE CHAIR: Oh, name some names!

G. DAWSON: Well, I don't have them written down here, so I can't. But we do have all the information in our files.

I could tell you first that we went to ten hospitals, 13 Crown corporations — because most of their head offices are in Vancouver and Victoria — 12 municipal offices, eight colleges and seven school districts. That's just about 10 percent of the school districts, and they actually came out the best.

Of the ten hospitals, two didn't give us audited financial statements, and seven didn't give us any schedules. Of the 13 Crown corporations, three didn't give us financial statements, and five didn't give us schedules. Of the 12 municipalities, one didn't give us financial statements, and five didn't give us schedules. It's the schedules that are the difficult spot — the things they don't particularly want to give out.

We visited eight colleges; that's quite a large number of them — almost half of them. One wouldn't give us the financial statements, and two didn't give us schedules. Of the school districts, they all gave us audited financial statements, and just one of them didn't give us the schedules. The school districts came out pretty well in terms of disclosing the information that's required to be given out.

R. BROWN: That's probably a reflection of the existing demand for the product. We found for the school districts, when we went in the door, there was usually a stack of statements of financial information sitting at the front counter. That's because traditionally they've had a lot of requests for these, so they're prepared to meet those requests.

A lot of the other organizations we went to said they had never had a request before. So other than the information that they sent to the ministry in Victoria, they really hadn't had to deal with members of the public before, to varying degrees.

G. DAWSON: Yet this is supposed to be public information about the accountability for the use of their funds provided to them as funded organizations.

In terms of follow-up in conjunction with our seminars, where we're going out to make people more aware, attending our seminars were predominantly officials from the prepared organizations — municipalities, school districts, etc. — and their auditors. We also had some members of the public out to learn more about the Financial Information Act, regulation and directive.

So, during the months of December to March we went out to Prince Rupert, Prince George, Cranbrook, the Okanagan, Vancouver and over here, and we actually tried to obtain, in conjunction with these visits, the information from 35 more organizations. Actually, the results were a little better, but I think there's more work to be done in terms of awareness and getting the information out to the public. So this is about availability.

We went to 35 organizations. Seventeen gave us complete packages; nine gave us partial packages, and that would be just a set of financial statements, or in some cases, interestingly, they would just give us the related schedules but not the financial statements; and nine organizations of the 35 wouldn't give us anything. As I say, this was six months after their year-end. We offered to pay the $5 and things of that nature.

D. SCHRECK: In the request for information from these organizations, did you work your way up the pecking order so that you were ultimately dealing with the CEO or the manager or chief financial officer, having encountered what one would expect to be the normal problems at the front desk?

G. DAWSON: Yes, we did. As a matter of fact, we have a list. It's in your packet. I don't have it here. I'm not sure of the page, but we've got a. . . .

DEPUTY CHAIR: Page 60.

G. DAWSON: Yes. We were trying to guide members of the public during our seminars on how to go about obtaining the information. In other words, if you go to the front desk in, say, a hospital, it is understandable that the information desk may not have heard of the Financial Information Act. We guided people — and this is what we did with our own staff first — to ask where the finance or accounting department was, and go to their front desk. Perhaps you then come across someone who is new on the job, and they haven't heard of the Financial Information Act. Then ask for the chief accountant, the director of finance or whoever it might be in that organization. Failing that, go to the office of the president.

As a matter of fact, the senior officials in the Health ministry asked: "Why don't you guide your staff and the public to go straight to the office of the president or to the office of the administrator of the hospital straight away?" We thought no; this is financial information, and we should guide the public to go to the finance departments first of all.

But yes, we did go through all that. For example, I dealt with five organizations in the Prince Rupert region. I got all of them to commit to provide the information to me, but only one of them did in full. The others said they would provide it to me, they would send it to me, but I never did receive it.

D. SCHRECK: If I understand this correctly, we have the chief financial officer or equivalent position in the organizations that were audited refusing or neglecting to comply with the requirements of the Financial Information Act.

R. BROWN: It really depended on the practical circumstances we encountered. Although we instructed my staff in that way, quite often they'd go to organizations — and they had quite a list of organizations to go to — and people wouldn't be available. They had to make do with whoever was available. We thought that if the representative from our office, going in as a member of the public, at least got to the chief financial officer or a senior person in the accounting department, who would necessarily have to be involved in the preparation of this information at some stage, and they

failed to get the information at that level, then that was good enough. We needed to cover these organizations in a certain amount of time. I didn't want them to take forever to do it. It was becoming a time-consuming process. I don't think we ever got up to, say, the level of office of the president, but we did get to the finance department in all cases.

THE CHAIR: Other information is required to be filed, or used to be, at the school board office. If you ran for school trustee, you had to file a statement of personal assets, which was available to the public. I don't know whether that is still required. It came in in the 1970s. Did you ever concern yourselves with the availability of that information?

G. DAWSON: No, we didn't look for that sort of information at all — just what's required by the Financial Information Act.

DEPUTY CHAIR: The act has a section under non-compliance. I would assume that you didn't invoke the non-compliance section in your test.

G. DAWSON: No.

DEPUTY CHAIR: Does the non-compliance section involve you as auditor general? Who does this refer to?

G. DAWSON: No, it relates to the minister responsible for the organizations.

DEPUTY CHAIR: I see.

G. DAWSON: How that would come into effect.... We've been advised by the comptroller general that that section has never been used — I would say fortunately, but perhaps it should be. We have at least alerted the public and prepared organizations that it's there. That would come into effect, I presume, if the minister was advised that one of his organizations wasn't complying. Then he could have that section of the act put into effect, whereby an outside consultant, or a person engaged, would go in and actually prepare the information and make it available to the public at a cost to the organization that wasn't providing the information.

A. BARNARD: I just want to point out that there have been, as I can recall, two occasions where the compliance section has been called into question, but it was done unofficially, and it was done directly to me. We resolved the situation with the organization directly.

G. DAWSON: We'll just finish off our findings. As I said earlier, generally the financial statements were approved. Why I say "generally" is that in some cases the information given out didn't include the auditor's report. Sometimes you get an abbreviated version of the information given out to you. It may include just the financial statements but not even, say, notes or the auditor's report. We assumed, in those few cases, that those financial statements had been audited.

Our concern was that most schedules were not explicitly approved. What we mean by that is that there was no indication whether they were or weren't approved. By the nature of the information given out and the schedules, it looked like it wasn't in the sort of format that would likely have been taken to a board of management or board of governors or board of school trustees for approval. We really wonder whether a lot of the schedules were being approved before the information was being given out to the public. We consider it a very high-risk situation for accounting staffs to be giving information out to the public without it being seen or approved by the governing board.

R. BROWN: The requirement for approvals actually flows out of the requirements listed in the directive issued by the Ministry of Finance. Except in the case of municipalities, it doesn't actually require the organizations to explicitly document their approval in the statement of financial information. For municipalities, I think it's the treasurer who has to actually sign the schedules. The other organizations just have to approve them. Supposedly, when we visited a municipality, for example, perhaps their council did review the schedules and approve them, but we just didn't see any statement to that effect or any information in the package. The reason that it's important to have approvals in the package itself is that it adds credibility and assurance. It adds the assurance that there has been a filter through which the information has flowed before it has become public. Every organization is entitled to look at information that can be made publicly available — and perhaps widely quoted from — and this important filter has to be in place. I think the best way to put it into place is by perhaps changing the requirement and requiring that it be explicit for the schedules in all cases.

G. DAWSON: Following from that, we actually suggested an example of a form of approval that could be put in place. This came about through our discussions with the senior financial officials from the four main ministries involved in dealing with these organizations and the comptroller general's office representatives. It essentially says that the schedules have been prepared by management of the organization from the records of the organization and have been reviewed and approved by the board of management, directors or what have you of that particular organization. As Roger just said, we believe preparers of the schedule should obtain their board's approval prior to the date the statement of financial information is being made available to the public so that they know the board is satisfied with the form and accuracy of the information to be disclosed.

[9:30]

R. BROWN: There's a recent trend in financial reporting which the auditor general wrote about to many of the heads of organizations — I think it was a year and a half ago. It has been brought to their attention that there's currently wide use of something called statements of management responsibility. In a

statement of management responsibility, which usually accompanies a set of financial statements, there's a requirement that the roles of all the players — the board of directors, the audit committee, management and the auditor — and their acceptance of the responsibility is clearly stated in the game of putting out a set of financial information or a set of financial statements. In the last year the standard audit report has been amended and a sentence has been added to that basically stating that the preparation of financial statements is the responsibility of management. All of this interrelates and is an attempt to clarify the roles that different parties are playing in this process.

G. DAWSON: What we're going to move on to now.... We'll skip through the last three pages quickly. The first page represents the Ministry of Finance and Corporate Relations current status report to our office as to what's taking place with regard to compliance with the Financial Information Act.

THE CHAIR: What page is this?

G. DAWSON: This is one of the handout pages — the second page of the four handout pages.

Essentially, Bill 31 has been put forth. If it was passed last night, this is recent history — the improvement districts are being deleted and the two non-operating organizations have been deleted. According to the Ministry of Finance, the regulation and directive are being reviewed for possible amendments to deal with some of the administrative and reporting issues raised. A public information brochure is being prepared to outline — for all the preparers and for members of the public — the intent of the legislation and procedures for obtaining the information under the act. As well, we have prepared this series of seminars that we have been giving around the province — and we actually intend to give a few more — which has tried to bring more awareness about the act, the regulation and the directive.

The next page is just Bill 31, which was dealt with by the House yesterday.

THE CHAIR: No, we haven't dealt with this yet.

G. DAWSON: Oh, I thought I heard someone say....

THE CHAIR: There are so many bill numbers, I get mixed up.

G. DAWSON: Well, this one is before.... At least, Bill 31 has had first reading, and it has certain amendments to the Financial Information Act in it. The reference there to the Municipal Act in section 2 of Bill 31 — sections 854, 855 and 856 of the Municipal Act — relate to the improvement districts.

THE CHAIR: Can we stop there, and I'll ask your independent opinion of taking those out. I can appreciate that some of them must be very, very small, but are they all to give a blanket exclusion...? Any comment from either of you?

R. BROWN: If the question relates to improvement districts, I think the way we wrote up our annual report comment on this was very sympathetic. My understanding of the situation from talking to the representatives at Municipal Affairs is that a lot of these organizations can be extremely small; for example, there can be several homeowners on a side road that have had to have certain work done, and they've had to set up an improvement district for some reason. There are four or five large improvement districts that I believe are centred in the Vancouver region. When you open up an issue like this, I don't think it makes sense to make all the small improvement districts have to comply with the onerous requirements of this act, but there could be a case made for the larger ones. It's really just a policy decision.

Another way you could go about applying this act is to name a group but put in minimum dollar limits which you have to exceed before you have to comply with the requirements of the act. Also, the relationship with the government: a lot of the improvement districts do not have loans guaranteed and do not receive grants, so there's really no reason to ask them to comply with this act. However, in other cases that may not be the case, as there may be loan guarantees, and so it may be appropriate. It really depends on the circumstances. Somebody would really have to look at the dollar limits and the extent of the relationship.

K. JONES: Aren't these improvement districts providing major services to their communities? In many cases they're providing fire protection, water supply, roadworks and other types of general municipal services.

R. BROWN: That's my understanding.

K. JONES: Isn't it important to the people in that area to have an accountability and a direction from these people? In many cases there is a staff person there who is capable of doing this.

THE CHAIR: Yes, he said that, but he said some of them are minute.

K. JONES: Maybe they could set a limit on the very minute ones.

G. DAWSON: Yes, that is right, I would think. Rather than just having them all in or all out, maybe some variation of that would be worthwhile.

K. JONES: I'm relating directly to Hudson's Hope, for instance, which was an improvement district up until it became a municipality. There was a huge community there that was being served by that improvement district. There was administrative staff.

R. BROWN: There is provision in the act for the deletion of organizations. If a ministry like Municipal Affairs believes certain organizations should be deleted — for example, the improvement districts — they can bring the suggestion to the Minister of Finance's attention, and he has to bring it forward.

I would assume that the opposite is true. If certain organizations should be added, it would probably be appropriate for the ministry responsible for dealing with those organizations to weigh the balance of the decision, take that into account and bring the suggestion forward. Alternatively, of course, the comptroller general's office could do the same.

D. SCHRECK: I think we've really gotten out of order by going from the mandate of this committee, which is to deal with the previous fiscal year and recommendations of the auditor general's report, to dealing with legislation that's currently before the House. However, I've not raised a point of order, and it's not my intention to do so, because I think it's in the public interest that we clarify the linkage between the recommendations in the auditor general's report and the legislation that's before the House. Clearly this is a housekeeping matter, and the recommendation in Bill 31 is one of cleaning up loose ends to eliminate some of this confusion, not one of fundamental policy one way or the other.

I'm curious, when I hear these comments with respect to Bill 31, which is before the House, as to the consultation procedure with respect to the recommendation in the auditor general's report vis-à-vis the legislation before the House. How is it that we have a situation where we are hearing advice here that is not fully reflected in what we are dealing with in the chamber?

G. DAWSON: In terms of what we have said, we have indicated that these are steps that have taken place up to the latest month with regard to our audit report results. One of the steps that has taken place is that Bill 31 was put forward in the House. We don't make any comment, if you're referring to the auditor general's report, as to whether we think Bill 31 is appropriate or inappropriate or what have you. That is something that has taken place relating to some of the information that was in our audit report on the Financial Information Act.

A. BARNARD: Just to help out a little on this point, it is in fact the OCG, the comptroller general's office, that administers certain portions of this act with respect to the overall framework. We are the people who put forward the amendments and who do the regulations and the minister's directives.

I think it would be fair to summarize our philosophy on this particular piece of legislation by saying that it tends to be a demand-driven piece of legislation. What I mean by that is that, as people ask for information from these organizations, it comes to light whether or not they're following the particular requirements and whether it makes sense. So our approach just lately has been to try to create an awareness in the minds of the public that the information is available or should be available from each one of these organizations. If they are not complying, then we will take action.

In respect to the improvement districts, on the basis of the auditor general's report and the perception from the Ministry of Municipal Affairs as to the degree to which improvement districts are relatively unsophisticated organizations, our view was that they should be removed from the schedules. It would seem to me to follow that if we had a demand that certain improvement districts should be reporting, we can then add them back in specifically to one of the schedules.

So the philosophy is for us to try to create an awareness of the act and to create an awareness that people are entitled to this information, and then to respond to the demand that might flow from that.

The other thing I would mention while I have the floor is something that would seem to me to be pretty obvious. We would have to review the whole act in relation to the freedom-of-information legislation, because it would seem to me that one is virtually going to supersede the other.

We have a small presentation, as well, that we can make, hon. Chair, with respect to the things we have done in OCG.

DEPUTY CHAIR: I think that last point is excellent, because, of course, there are different time-lines and also overlapping pieces of information with different time-lines for reporting included in the new Bill 50. I would suggest this debate is very appropriate in light of Mr. Barnard's comments. Otherwise the auditor general's office should be billing you for research services for the Liberal caucus.

K. JONES: Why? Are you not satisfied with the research we're doing? Would you like more information?

Just relating to the freedom-of-information legislation, it is inclusive of this; I don't think it's in conflict with this. It literally accepts all of the existing methods by which the public receive information.

DEPUTY CHAIR: Absolutely. But what I'm saying is the time-lines are shorter for getting the information under the Freedom Of Information and Protection of Privacy Act.

K. JONES: That's true. But where the processes are already in place, it doesn't change those processes.

THE CHAIR: I'm not sure whether this is a valid question or not, but I'm going to ask it of you, Alan. Earlier in the discussion, there was discussion about organizations that happen to slip through the net, like the PNE and some other ones. Was there any thought that Bill 31 would have picked those up, seeing that they had been brought up in the auditor's report?

A. BARNARD: No, Mr. Chairman. Again, harking back to the philosophy, our view has been that if we create an awareness of the act and the type of information that is being called for from those organizations which could be considered agencies of government, if you will, then if there is a demand for this and somehow it's not being met, we could include them in the act.

I guess one of the concerns we've had is that we have placed a fairly heavy demand on these organizations to produce all of this information, and although

the auditor general has indicated that there is a fairly strong demand from people for this information, we haven't actually seen too much by way of concern being expressed by members of the public who are not getting this information. It would come to our attention if they were. As I've mentioned to you, I've only had two instances so far in my ten years of being involved.

[9:45]

THE CHAIR: I think that the demand increased fairly dramatically when the auditor general's office went around making the requests.

K. JONES: I think people have to be aware it's available.

A. BARNARD: As Gordon has mentioned, in many cases this was the first time anybody had ever asked them for this information.

D. SCHRECK: I can see, from the viewpoint of managing many of the small organizations among the 750, that it can be a nuisance and, at a time of very limited financial resources, drive up costs — to have to comply to the point of having printed schedules at the front desk to hand out to the public. But it strikes me, in today's computerized world, that to some extent not being able to produce the information is a reflection on the accounting systems, and would indicate to me a weakness beyond public access to information that I would be very concerned about. I would think that some sort of guidelines to the organizations would be useful where they reflect public demand, such that if it is spewed out on a photocopier, or a computer report.... For a small organization that gets a request once every five years, that's probably realistic; although there should be some instructions to have it verified that the board of directors have seen the stuff and approved it, and that the hard copy being produced is a true copy of the electronic record. Those seem to me to be reasonable standards. I wouldn't want to see this committee put pressure on public agencies to unnecessarily increase their cost for no valid purpose of public policy, but at the same time I would be extremely concerned if the accounting standards in any organization were such that they couldn't produce these reports.

THE CHAIR: Absolutely.

K. JONES: Right.

THE CHAIR: In the case of many of the improvement districts, because of the limitations, the reports would almost be zero, wouldn't they? They didn't pay any salaries in excess of $35,000; no suppliers in excess of $10,000.

K. JONES: Not many of them.

G. DAWSON: That would be the case.

THE CHAIR: But some of them are really small.

K. JONES: Yes, but not a lot of them.

THE CHAIR: I used to do one up in Coal Harbour, B.C., that was a little water district — four homes attached to one well.

K. JONES: But that's grown now.

A. BARNARD: Mr. Chairman, I wonder if maybe we could just do a short presentation from the comptroller general's point of view, which will help, I think, to solve some of the discussion here. I'll ask Mr. Skaarup to handle this.

V. SKAARUP: I'd like to just make a few general comments and then deal with what actions we've taken under each of the specific recommendations of the auditor general. As Mr. Barnard has already mentioned, one of our key approaches to dealing with this issue is to improve information that people have available to them.

THE CHAIR: Can I hold you just one second? I wasn't sure that we had sort of finished off with the auditor general stuff.

G. DAWSON: We have one more page. It's been handed out. It just indicates what areas we believe need to be addressed currently. I think some of that's going to come from Mr. Skaarup and Mr. Barnard in terms of what they're going to be presenting and talking about. We believe clarifications are still required with regard to some of these issues. We believe the issue of approval needs attention, and we believe more monitoring should be going on similar to what we did in our audit and our follow-up.

The purpose of our going around and about doing this work was to, we believe, assist the assembly and the public in trying to see if there's adequate compliance with this piece of legislation. It is important accountability information. If legislation requirements are not being complied with, we wonder about the usefulness of it. I think it is useful for these kinds of things to be looked at and followed up and reported on. That's essentially what we did.

V. SKAARUP: As indicated, communication seems to be one of the main problems or reasons why we have some of these deficiencies occurring that the auditor general's office has noted. We've produced a brochure, which is just about to be distributed to all of these corporations or organizations that are subject to the act, as well as, of course, made available to the general public through government offices — such as government agents, etc. — so they can be aware that they do have the right to access this information and how to get it. Hopefully, too, for some of these organizations, when they see a government putting out brochures telling people they can get this information from them, they will realize that they should be providing that. So that's one element of our communications strategy.

The second is that when the auditor general's report first came out, I wrote to all the ministries' senior financial officers drawing to their attention the obser-

vations of the auditor general and reminding them that, as the ministry coordination person for Financial Information Act reporting, they needed to take some follow-up action with their reporting organizations.

We're also in the process of preparing for distribution to the ministries by the end of the summer a checklist that they can use for evaluating the adequacy of Financial Information Act reports that they get from reporting organizations to ensure that they are complete and meet the appropriate standards. That's sort of a three-pronged communication strategy that we have taken.

In terms of the specific recommendations of the auditor general, the first noted was the non-compliance by improvement districts. From a practical sense, enforcement of the act was not feasible. Given the volunteer nature of most of the members of these organizations and the fact that we had very little leverage with them, since they didn't get grants or guaranteed debt — and also the immateriality for them; over 80 percent of the improvement districts' total annual budgets were under $100,000 — it would be a fairly significant additional cost to produce the schedules. And we had no way to really enforce them, because the board could always quit, and then the government would be faced with having to perhaps replace those services with a more expensive mechanism. That's part of the reason why that's in Bill 31 for consideration of the House to delete it from the schedule.

As Alan said, I think the largest one has an annual operating budget of $1 million. If there are significant public funds involved with those organizations, like the provincial sector, they could be added back in through a regulation, which is a fairly straightforward mechanism for putting people on. As Mr. Dawson has already mentioned, it takes legislation to remove them from reporting, but they can be required to report through regulation if they meet the terms of the legislation.

In terms of the inactive organizations, the two organizations that no longer exist as legal entities are also proposed for deletion in Bill 31. Again, you can't really require an organization that doesn't exist to report. The other organizations that are not reporting are inactive, and we will be proposing amendments to the directive clarifying that these corporations should be reporting. We need to bear in mind what the report would look like. For example, the balance sheet would say assets, zero; liabilities, zero; equity, zero. The operating statement would show revenue, zero; expenditures, zero; net surplus or deficit, zero. The schedule of salaries would say none; and the schedule of payments would say none. So it is kind of a legalistic exercise getting them to report.

In terms of their third recommendation about organizations not providing schedules required, I've mentioned already the three parts of our communication strategy, and of course, the auditor general's office in conjunction with the Canadian Institute of Chartered Accountants has already put on an excellent series of seminars all across the province, which has increased awareness quite significantly, particularly with the organizations responsible for reporting what their responsibilities are. We will be implementing a fourth element of our communication strategy later on, in the summer, by providing a checklist for the ministries that are specifically tasked with ensuring the appropriate compliance by these agencies, to assist them in doing that.

In the fourth recommendation about organizations not providing information to the public when requested, those communication strategies that I've mentioned should, hopefully, address that issue. Similarly, under recommendation No. 5 about the cash or accrual basis, those communication activities that I've outlined should address that. They should also address the sixth recommendation on organizations that do not include the total amount of expenses paid.

A comment on the schedules — the amounts that are reporting limits for the schedules under the Financial Information Act. We basically try to keep them in sync with the public accounts reporting limits. Every time Treasury Board approves a change in reporting limits, we initiate a change to the regulation for those Financial Information Act organizations. If the limits are raised, the savings can be quite significant across the province. When you have over 700 organizations, that can then reduce the volume.

With respect to the issue of the Workers' Compensation Board, there's a legal technicality in terms of whether they are actually required to comply, because they don't meet the definition of a corporation.

In terms of organizations that are in a consolidated entity but aren't subject to the Financial Information Act, we think it is appropriate for them to be in a consolidated entity. So we wouldn't propose to take them out. They also do not necessarily, in all cases, meet the definition of a corporation for the Financial Information Act. Therefore amendments to the legislation would be required before they could be brought in under the Financial Information Act. This is a more extensive legislative amendment than simply adding them to the schedule, because doing that may not be sufficient.

THE CHAIR: I'm sorry. Why not?

V. SKAARUP: It's the same issue with the Workers' Compensation Board. They don't meet the definition of a corporation. If you put them on the schedule, that doesn't necessarily mean that they have to comply.

DEPUTY CHAIR: They don't have grants and loans.

V. SKAARUP: The two parts of the act are in conflict with each other.

THE CHAIR: I appreciate that. But, if they're put on the schedule, then they're on the schedule and they have to comply, don't they?

V. SKAARUP: That's the point. Putting them on the schedule doesn't mean that they have to comply, because the schedule is in conflict with the start of the bill, which defines a corporation. For example, the PNE would not meet the definition of a corporation under

the act. It's the same thing with the Workers' Compensation Board.

THE CHAIR: So the scheduled organizations still have to meet the original classification?

V. SKAARUP: The definition of corporation that's right at the start of the bill.

THE CHAIR: So it isn't these corporations plus organizations scheduled on. . . ?

V. SKAARUP: They have to meet those criteria. There is a listing that shows the ones that meet those criteria and are now required to comply with the act. You could have organizations that meet the definitions but aren't on the schedule, and they wouldn't have to comply. But if you put them on the schedule and they don't meet the definitions, they don't necessarily have to comply. It's one of these legal pinheads whereon the legal technicalities dance. But it does have practical implications for us in terms of getting organizations to comply.

A. BARNARD: I hope that "legal pinhead" wasn't a personal reference. [Laughter.]

G. FARRELL-COLLINS: I wasn't going to say it. . . .

DEPUTY CHAIR: Outside the House.

D. SCHRECK: There's a social service tax amendment on that matter.

THE CHAIR: Hold on a second; we have a question.

F. RANDALL: I'm just going to ask about this brochure. It has a phone number on the back that I'm going to phone when I leave here to ask them about this. Why would they have to mail out a copy of this Financial Information Act? Could the people on the other end of the phone not advise you whether a corporation is included or excluded? If I were to phone that number and ask if hospitals are covered, they would say: "You will have to order this act and mail us $1.35." Why could the answers not be given rather than having to buy this?

V. SKAARUP: I don't think you necessarily have to buy the act. There's information there about where you can get copies of the Financial Information Act. I expect that if you phone the number for the Ministry of Finance, they would just tell you whether or not it was subject.

A. BARNARD: I think the process would be that this is the communications department phone number on the bottom of the brochure. If they could not answer the question themselves, based on the information they have available, it would be referred to the comptroller general's office. We would then respond directly back to the people. If it's just a simple question like that, it would be answered. If it was a question on interpretation of legislation or something which was outside our scope, we would suggest that they get a copy of the act. [10:00]

F. RANDALL: It says: "How do I find out which organizations fall under the act?" It also says: "Where can I get copies?" I have to get copies of the act, and it says that I have to pay $1.35 to find out.

A. BARNARD: We would tell you which organizations.

F. RANDALL: If I phone that number, they could tell me?

A. BARNARD: Yes.

V. SKAARUP: There is another number right at the bottom.

F. RANDALL: That's the one I was looking at.

A. BARNARD: There are two numbers on here. There's one that says where you can get copies of the act, if you wish. The other one at the bottom is if you want information.

F. RANDALL: So I could phone and find out who is covered by the act without having to buy this?

A. BARNARD: Yes.

THE CHAIR: Without having to spend $1.35.

G. FARRELL-COLLINS: What if it's a long-distance call?

V. SKAARUP: I'd also point out that in *Public Accounts*, at the back of the volume that has the summary of financial statements, we have a series of schedules that summarize the balance sheets and the operating statements for all those organizations subject to the Financial Information Act that are not part of a consolidated entity. So you can also look there to see if a particular organization is relevant. For example, if you're interested in your particular hospital, you can look at the section on hospitals that's. . . .

DEPUTY CHAIR: What page are you referring to, please?

A. BARNARD: Try F8 in the other volume.

F. RANDALL: I think there was a point just made that these are all long-distance calls.

THE CHAIR: That's what I was going to say.

F. RANDALL: Why would they not have a toll-free number on here? People from all over the province are going to have to make a long-distance call, they'll be put on hold and end up spending $8 or $9 to try to get. . . .

A. BARNARD: They can use the B.C. information phone line, and they would get across to us, and we would return the phone call.

F. RANDALL: But they don't know that on here, do they?

A. BARNARD: That's true.

V. SKAARUP: That's a good point. We'll make a note for the next printing to put the Enquiry B.C. number on.

THE CHAIR: Is there any chance, since this is a brand-new form — May '92 — that the ones in storage could just be run back to the printer and have a little imprint put on? It really is important. It so often stops someone from making the phone calls, because they know it's going to cost them money.

V. SKAARUP: Maybe what we could do is get a rubber stamp that has Enquiry B.C. and the toll-free number on it, and we could just stamp it on these. We got them just the day before yesterday, and we have at least five or six boxes in the office.

THE CHAIR: That's the point I was making.

DEPUTY CHAIR: Take them home on the weekend.

K. JONES: While you're watching television, you can stamp them.

THE CHAIR: A summer job for students — the Public Accounts Committee does something for students.

N. LORTIE: Just a suggestion. I don't know about other MLAs, but I have a large board with slots in it in my constituency office. It is a great place for people in the community to come in and pick up all these thousands of wonderful brochures that we produce. This might be of interest, so you might consider giving a bundle of them to every MLA.

V. SKAARUP: It is on our planned distribution list to provide them to the Members of the Legislative Assembly so they can have them for their constituency offices.

N. LORTIE: Thank you.

K. JONES: Could I also suggest that you send around a proper brochure rack that we can put all these brochures into? We get all these brochures, but there's nothing to mount them on.

V. SKAARUP: I'm afraid we can't spend out of our appropriation funds for the constituency offices.

THE CHAIR: Anything further, Vic?

V. SKAARUP: No. We're quite concerned with the deficiencies in the administration of the Financial Information Act that came to light in the auditor general's audit. Basically we have a three- to four-point communication strategy to get the word out and then follow up with the ministries. We will be continuing to do so. Although we've been getting the ministries to report annually on compliance or non-compliance by the organizations, obviously they need some additional guidance on how to evaluate those submissions to ensure that they do meet the requirements of the act. We'll be giving them a checklist to use for that by the end of the summer. Hopefully, after a year or so for this to all filter through the system, if they repeat their audit in a year or two from now these issues will all have been satisfactorily resolved.

K. JONES: Could you tell us why the Freedom of Information and Protection of Privacy Act didn't incorporate the Financial Information Act and thereby consolidate the operations so that there would be less administrative cost?

A. BARNARD: I don't think we can answer that question. The Freedom of Information and Protection of Privacy Act was drawn up by a different ministry, and we were not privy to a lot of the drafts of that act. So I really cannot comment on it.

R. BROWN: I recently attended a seminar to familiarize people in the ministries with the requirements of the Freedom of Information and Protection of Privacy Act. It basically said that the act was not intended to replace existing channels of distribution of information, that it was supposed to be compatible with and supplementary to, but not replace, existing channels.

K. JONES: That's my understanding of it as well. I was wondering if the auditor general or comptroller general offices were involved in the preparation of the act. Did they have input into this?

D. SCHRECK: Point of order. This line of questioning is clearly out of order and not in the jurisdiction of this committee. There will be an appropriate place in the House in the debate of Bill 50, but this is not the place.

K. JONES: I'm afraid that I disagree with that.

THE CHAIR: Oh, I'm allowed to check with my advisers. The point of order is well taken, I'm told.

K. JONES: Seeking information about sources?

THE CHAIR: Evidently it is not appropriate.

K. JONES: It's not about the act.

DEPUTY CHAIR: We're talking about current business, Ken. You've got to think in your mind that we're a year old. You're seeking current information. And I'm exhausted.

K. JONES: No, I'm talking about the past. I'm talking about. . . .

THE CHAIR: Anyway, I'm sorry. I've already ruled on the subject, and the point of order is well taken.

Where were we? We're seven minutes early.

DEPUTY CHAIR: Mr. Chair, regarding next week, because I'm so old I'm having a great deal of difficulty meeting a schedule of late-night sittings and these early meetings. I really would ask — because we have been so good at accommodating the Liberal caucus meeting schedule — if there's a possibility that your colleagues could review the schedule of meetings, in light of the fact that we're also having late-night sittings. I'm just asking you to review it. It's rigorous...

G. FARRELL-COLLINS: In what respect?

DEPUTY CHAIR: ...for all of us. I'm not taking a....

G. FARRELL-COLLINS: I understand. What would you like to see, though? That's what I'm curious about.

DEPUTY CHAIR: I'm wondering if your caucus meetings can start earlier, and we could meet at 11 a.m. or 11:30 a.m., or from 11:30 a.m. to 1 p.m., or whatever.

THE CHAIR: The hour and a half has turned out to be a nice time-frame.

DEPUTY CHAIR: That's fine. The hour and a half is adequate. I'm just asking for some review that it's not such an early morning start when we have a late-night sitting; if we don't have a late-night sitting, there's no problem whatsoever.

THE CHAIR: I know how you feel.

G. FARRELL-COLLINS: There are other committees meeting at this time, too.

THE CHAIR: If there's nothing further, I will thank the auditor general's office and comptroller general's office, and look for motion to adjourn.

DEPUTY CHAIR: So moved.

Motion approved.

The committee adjourned at 10:08 a.m.

WEDNESDAY, JUNE 10, 1992

The committee met at 8:50 a.m.

THE CHAIR: The committee on Public Accounts will come to order. You have the agenda in front of you, and the first item is general standards of financial statement presentation. We again welcome to the meeting Ms. Kit Chapman, manager of reporting for the comptroller general's office. I turn this over to you.

G. MORFITT: Before you get into that, I wonder if I could just speak to this sheet that has been distributed to you. You'll recall that the committee asked me to bring you a list of those entities not subject to the Financial Information Act reporting requirements. This sheet sets out those particular entities.

As we note at the bottom of that one-pager, for these particular entities to be subject to the reporting requirements, they would have to have their own enabling legislation speak to the fact that they are required to report, or they would have to have the enabling legislation that they're under listed in schedule 1 to the Financial Information Act, or they would have to be under those named in schedule 2 to the act. Without speaking to how legislators should legislate, this committee has already taken the approach — for example, with Mr. Bovey and his various requirements — that it seems to be useful to have an act that keeps up to date.

The trouble with this act seems to be that every time an entity is created by government, or any time one is dissolved, these schedules become obsolete. Therefore it may be useful for the government to consider — and this is strictly my suggestion — changing at the very front end of the act the definition of corporation that is subject to the act to include any entity which forms part of the summary financial statements of the government. In that way, any new entities that are part of government automatically come in, and those that are dissolved go out. Those are the comments that I wanted to make this morning.

THE CHAIR: Does anyone have any comment on this?

B. JONES: You're making more work for yourself here, George.

THE CHAIR: No, not any more work for him. He's making more work for the people that. . . .

G. MORFITT: Not for me. For these people, yes.

I think the feeling is: why should any of these organizations in particular not be subject to the same freedom-of-information rules, you might say, as any of the other organizations that are listed in schedules 1 and 2 of the act?

B. JONES: I would move that we make that recommendation.

K. JONES: I'll second that.

THE CHAIR: Before I call the question, I wonder whether the comptroller general's office has any thoughts on the subject.

K. CHAPMAN: I'm not 100 percent up to speed on this one. I do have one comment to make as I look at this, and that is that a lot of the ones listed here are part of the summary financial statements and, of course, would be included in the summary financial report that we produce for the Legislature. So they are brought in there. Copies of the financial statements which they would be producing would also be included in *Public Accounts*. To that extent, anyway, I think a majority — as I'm looking down here very quickly — would already be published in *Public Accounts*.

THE CHAIR: Kit, this isn't a question of what's in *Public Accounts*. These all are. They are not required at the moment to report all of the other matters that are required under the Financial Information Act, like salaries and wages and those other. . . .

K. CHAPMAN: Right. That is what I was thinking. Several of the ones I'm looking at here have a very limited number of employees, that I'm aware of. Whether it would be justified to ask that they produce this report is the other question I would have. It certainly is something to be looked into. As I say, I'm not aware of all the ins and outs of why these entities are not included. It could be that something is in progress right now.

On the suggestion that's been made, I am not aware of all the arguments for and against it, I'm afraid. One must assume it could have some implications that might not be apparent at first reading.

F. RANDALL: I'm inclined to think that we should wait to get a report on the matter before we just go ahead.

THE CHAIR: From the comptroller general?

F. RANDALL: Yes. At least have him make some comments. We don't have anything in writing with any specific recommendation. I think it might be worthwhile to at least wait a week before we deal with it.

B. JONES: I have no objection to that. I'm just curious. I took it from what George was saying that these ones have slipped through the cracks, that they really should qualify, and that a number of others have been designated in their acts, but for no good reason have not been included, and should be.

G. MORFITT: Yes, but I think it would be useful to hear from the comptroller general. There may be reasons unbeknown to me that particular ones of these have not been put in — whether for good reason or not is another question. It wouldn't hurt anything to wait and get a comment.

THE CHAIR: Just as a comment on that, it's a pity it wasn't done last year, so that the British Columbia Year

of Music Society was included. I think we are one year late on that, aren't we?

I have a motion from Barry to table this motion. Is it agreeable to everybody?

K. JONES: I just want to make sure we know what the motion actually is now.

THE CHAIR: The motion is that we recommend to the government that these organizations be included in the requirements of the Financial Information Act.

B. JONES: Actually, it was the recommendation that George made, which was a wording change that would capture everything.

K. JONES: Yes, that's what I wanted to be sure we were clear on.

D. SCHRECK: It would recommend a legislative amendment, so that cracks would no longer exist.

G. MORFITT: Mr. Chair, if you want the specific wording change suggestion, I could give that for the motion. That would give Mr. Barnard and others a chance to know exactly what we're talking about here. It is in section 1 of the act. It would read — and I'll give this to the Clerk: "In this act 'corporation' means. . . ." And then under section (c): "an organization or enterprise that is included in the reporting entity for purposes of the government's summary financial statements."

G. DAWSON: That would mean that, rather than having to go through order-in-council or the Legislature to add or delete organizations, those that are part of the government summary financial statements, which tend to get changed quite substantially each year — this year I think there might be quite a number of organizations added; some years quite a number of organizations are deleted — would automatically follow what makes up the government summary financial statement organization.

N. LORTIE: Do I assume that we're also asking for a report from the comptroller's office?

THE CHAIR: What we're looking for is a response from him before we vote on it.

If it's okay, we'll move along to the first item on the agenda: the general standards of financial statement presentation. Do you want to come up a little closer?

K. CHAPMAN: Okay.

Did Mr. Morfitt wish to outline this first?

THE CHAIR: George, do you wish to make an opening. . . ?

G. MORFITT: Mr. Dawson will speak to this, Mr. Chair.

G. DAWSON: I'll just say a few words briefly here. As I think all of you know, for about ten years now the Canadian Institute of Chartered Accountants has been publishing public sector accounting statements to give guidance to governments across the country. This is the result of consulting with the respective governments, their accountants, their auditors and private sector accountants and coming up with public sector accounting statements for guiding governments in doing their accounting.

This particular subject today relates to public sector accounting statement 3, issued by the CICA in November 1986. That public sector accounting statement contains 35 recommendations with related explanations about certain fairly specific and detailed aspects of how government financial statements should be presented for uniform presentation of financial information to the public. What our office has been doing — and this is similar across the country — is monitoring and reporting to the assembly and the public as to how the government is doing in adopting these recommendations that have been set out by the CICA.

What you will find in our January 1992 report here is a reference to the fact that, of the 35 recommendations made in 1986, 25 are pretty well completely implemented. The remaining ten are only partially implemented. We are fairly supportive of what the CICA has been doing in this regard. We think the remaining ten should be fully adopted as well.

[9:00]

THE CHAIR: Can you point us to a page in your 1992 report?

G. DAWSON: Yes, it's pages 22, 23 and 24.

The ten recommendations aren't our recommendations; these are the recommendations of the CICA for government financial statement preparation. They're listed there with our brief comments as to why they aren't fully implemented or weren't as of March 31, 1991, in those financial statements. We understand that the comptroller general's office is working toward implementing all of these. Perhaps the comptroller general's representative could let us know where they're at with regard to preparing the March 31, 1992, financial statements.

K. CHAPMAN: This is where I speak. Gordon has already made most of the points, actually.

THE CHAIR: You can say them again. Then we'll gradually get them in our minds.

K. CHAPMAN: I'll run very briefly through the ones that have been mentioned here.

"Financial statements should be issued on a timely basis." We've been doing our best to improve the timeliness of the financial statements. Part of our problem in the past has been that it has been the policy not to release the *Public Accounts* until such time as they could be presented in the Legislature. The public accounts did not have an audited statement until the end of September, and then they had to be proofed and printed, etc. It was very difficult to produce them before the following spring, because that was usually the next date the Legislature sat.

Last year was the first time we produced them and had them published while the House was not sitting. We did it with some trepidation, but it seems to have worked quite well. That one we are hoping to continue improving. There is a certain logistical problem. The *Public Accounts*, as you are aware, is quite a large document, and there is an immense amount of detail in it. As quickly as we can improve the timeliness, we are doing so. That's about all on that point.

THE CHAIR: Before you move on, let's talk about this for a moment.

B. JONES: I'm just curious as to what the auditor general's department figures a timely basis would be.

G. MORFITT: Certainly in some other jurisdictions, the *Public Accounts* are available in the fall of the year. I know when Ken Dye was the national auditor general, he was always trying to point towards the end of July. Of course, it never happened. It hasn't happened yet. I would think that that would be supremely ambitious in this jurisdiction in the next few years. The *Public Accounts* have been issued in November on one occasion, or early December, when there was a fall sitting of the House. So it is possible to get them out in late November, early December. We know that it has been done. I think we should be looking towards publication around six months after the year-end, at this point in time, rather than nine months after the year-end.

K. JONES: I believe it would be really useful, if we were going to have a fall session, to have these before the session, so that they could be looked at and used in that session. Does the comptroller general see any difficulty with that?

K. CHAPMAN: The main difficulty would be strictly logistical. There's an immense amount of detail that has to be gathered together in a very short space of time. There's an immense amount of checking and double-checking. In particular, I'm thinking of the detailed expenditure area of the public accounts, which has been, I understand, before you at two or three sessions. That is, frankly, time-consuming.

It's not only the fact that you have to go through all those details; you then have to check them for accuracy. People don't always key right numbers, and you've got to ensure that you do not have anything that is out of line to what it should be, and confirm that the numbers that you are reporting are correct. Just to do that on the basis that we are currently doing it does take time.

There is no difficulty in having the financial statements themselves prepared for the end of September. We do have them prepared. We do have an audit report for the end of September. It is the immense amount of detail that goes behind it that causes the problems. Yes, we can probably improve it, and that is what we're working towards. At this stage, it's difficult to say.

K. JONES: What you're describing sounds like a manual operation. With mechanization — it's fairly well started, anyway — will that not make it a lot quicker and a lot easier for you?

K. CHAPMAN: The detailed reporting section of the public accounts, yes, where we report on the details going into the appropriation spending, the improvement in the public accounts section, that will make a great difference there. We are also anticipating, although it's still to be determined, what improvements that's going to make on the detailed reporting by supplier, by employee. Just the massive details that you've got there cause problems.

With the improvements in mechanization, yes, we should get it faster. In fact, my section's ideal is to have a summer vacation. That's what we're working towards.

K. JONES: That's a good ideal.

N. LORTIE: For my information, do these documents have to be presented in the Legislature before they're available to individual members and to this committee?

K. CHAPMAN: *Public Accounts* is a published document; it is printed. We have made a point that all the members of the Legislature should be made aware of them at the same time.

THE CHAIR: We got them last time before the Legislature sat. They were my holiday reading when I was away before the Legislature sat.

D. SCHRECK: Since you're on an accrual accounting basis, when do you actually close off for March 31? Accruals seem to be a whole lot easier when you actually run it on cash and then backdate it to an accrual by closing late. When do you really close in order to get accuracy of accrual?

K. CHAPMAN: We have actually just closed — run — the final reports for starting to prepare the *Public Accounts* within the last week.

THE CHAIR: For March 31.

D. SCHRECK: So middle of June, you're really closing for the end of March to bring your accruals accurate.

K. CHAPMAN: Right. That's to allow the ministries to get in all their adjustments and corrections to us. We will now do our initial draft. That will be presented to the office of the auditor general, who will then advise us of any errors, omissions, corrections that they would like to see. We will go through our process with them. By the end of August, we will have our final draft in the process of being completed. By the end of September, they will be signed.

F. RANDALL: I was just concerned that we try to say that we have to have them for the session, if there is one. I think what all staff should be doing is preparing them a.s.a.p. For us to try and say we want them for the session.... I've seen things change so rapidly around here. As far as politicians making decisions goes, you

don't know where you're at. So I wouldn't want to tie them to a bunch of political decisions.

THE CHAIR: I'd like to close this off, except for one question that I had that hasn't come up.

I suggested to the Minister of Finance yesterday that we should consider having all Crown agencies, Crown corporations, everybody, have a March 31 year-end, to simplify the reading of them. At the moment you've got a set of statements that's a jumble of year-ends. What comment do you have on that?

K. CHAPMAN: From our own perspective, of course, that would be ideal. I don't know. It is my understanding that some of the Crown corporations have chosen different financial year-ends because it's more appropriate to the way their business flows. To some of them, without going into all the specifics of it, we could find that forcing them to have a March 31 cutoff could result in them being at their busiest period trying to do a cutoff. I couldn't say that is why it always is.

THE CHAIR: Anyway, it is something that I think should be thought about by the comptroller general's office, because it just makes good sense to me.

Moving on, then, Kit.

K. CHAPMAN: "The statement of financial position should report a government's liabilities at the end of the accounting period segregated by main classifications, such as: accounts payable and accrued liabilities; employee pension obligations; borrowings; and loans and advances from other governments." The primary difference here is on the unfunded pension liability. This one is being discussed separately, so I won't go into it a great deal — as with the following comment. They are both related to the fact that we currently, for the last *Public Accounts*, did not include the unfunded pension liability. I believe this has been adequately discussed on a separate platform, so I won't mention that at this time.

"Financial statements should disclose adequate information about the nature and terms of a government's financial assets together with any valuation allowances." I believe this one also has been covered separately, except to say perhaps that we are attempting to group sufficient information, to gather it together, so that we could produce a note that would have meaning without being excessively large. That is one of the problems: trying to come up with a note that would add value to allow people to evaluate the loans, without providing something that looks like a book. We're trying to come up with a short, concise description of the terms of repayments that would add some value and of course be auditable by the auditor general's office. We are working on that. We would like to include it in this year's *Public Accounts*; if not, we'll be working for 1993 to improve that note to that extent.

"Valuation allowances should be used to reflect financial assets at their net recoverable or other appropriate value. This is an old one, and is also one that I understand is being discussed separately. I think I'll allow the comptroller general to give his position on that one.

THE CHAIR: We appreciate that that's a subject of its own for its own meeting. It is on our agenda for the next meeting.

K. CHAPMAN: That's right.

DEPUTY CHAIR: Valuation allowances?

THE CHAIR: Yes. Well, Joy, I think that "valuation allowances" is not the term I would use, because we all think of valuation allowances relating to a fairly simple question of whether something is a bad debt or not. This isn't really talking about bad debts. Am I correct, George? This is just talking about government supplying the money to pay itself back in the future.

K. CHAPMAN: It's an ongoing issue that we've been discussing.

"Financial statements should disclose information to describe a government's material financial commitments at the end of the accounting period." This one has been with us since I joined the branch. We have made I do not know how many attempts to come up with a note which provides additional information of value to the Legislature. We would be very interested in hearing anything that people have to suggest on this one.

The main difficulty that we have is if you want to come up with a commitments note, what the government is committed to for the next fiscal year, you basically come up with next year's estimates.

THE CHAIR: Precisely.

K. CHAPMAN: We have tried to come up with something that is in accordance with the Financial Administration Act, that provides reasonable, usable information to the Legislature, that adds value and gives an idea of what the government is committed to for the foreseeable future. We're having another go at it this year, and hopefully we'll get something that is acceptable both to the Legislature and to the auditor general's office. But we haven't as yet finalized it in our own branch. I believe we've passed it to the auditor general's office for comment, and hopefully we'll be discussing it with them shortly. It's not an easy one. If you've got any suggestions, we'd love to hear them.

THE CHAIR: Maybe you'll get some.

K. JONES: Is there a standard reporting of capital projects and their commitments per year, if they're a multi-year budget?

[9:15]

K. CHAPMAN: We do ask the ministries to advise us at the end of the fiscal year on what capital contracts they have outstanding, how much they are and over what period of time. That one I'd have to confirm — that they advise us just what contracts they do have in place that will have to be met over the next few years.

K. JONES: This is strictly at their discretion? There isn't a mandated requirement to report capital project funding?

K. CHAPMAN: Yes, there is. As part of the year-end requirements they are to provide it to us. It is not an optional extra; it's something they must do. If they do not, they are not meeting the requirement that we have given to them.

K. JONES: To the auditor general, then: what items outside of that type of reporting are desired for this to meet this requirement in the report?

G. DAWSON: We almost sympathize, I guess, with the comptroller general's staff and the accountants around government because, as our annual report point indicates, it's not so much what is being reported, but the lack of clarity or definition as to what capital projects and extraordinary program commitments really includes. The definition of commitments put forward by the government as representing what they're showing in the financial statements is capital contracts and extraordinary programs. What gets reported by the comptroller general's office by the ministries is what each ministry considers to be capital projects. Oftentimes you consider that to be road-building, buildings as such, maintenance or things of that nature, but some ministries consider silviculture and a variety of other things as being capital in nature as well. So there isn't a good definition as to what capital is.

Furthermore, the reporting that goes to the comptroller general's office doesn't go public. All of the commitments of any nature are put together in just one total amount, so you don't even get that capital reporting going public that you asked about. That is going from the ministries to the comptroller general's office.

In terms of extraordinary program commitments — such as to launch into a new program over the next five years that may cost several millions of dollars — that, too, is ill-defined. As Alan Barnard has said on many occasions, what is extraordinary in government? Either everything is ordinary or everything is extraordinary. You could announce you're going to build ten new hospitals next year. Is that even extraordinary? It may not be. It's part of what government has been doing over the years. Some ministries are attempting to put forward to the comptroller general's office their information on commitments about extraordinary programs, but no one's very sure what that really involves.

So the numbers that come forward to the comptroller general's office are put together, and they end up as one total number in the financial statement note. That is put forward in the financial statements as being the total commitments of the government. But are those the real total commitments of the government?

K. JONES: What method of reporting this would you recommend?

G. DAWSON: Quite honestly, we don't have a solution as to what the definition should be. But we believe the current terms, "capital projects" and "extraordinary programs," could be better defined or could be defined to some extent, because right now there's a lack of understanding as to what a capital project is. All we're suggesting is that this be clarified, so that there's guidance out there for the ministries to report consistently, and everyone understands what's included in this big number.

K. JONES: Who should make that definition?

G. DAWSON: I don't think the auditor should make the definition.

THE CHAIR: It would be a management question.

D. SCHRECK: It strikes me that there are enormous conceptual problems here on what a commitment is and what capital is. I would feel most comfortable with a very narrow definition: that is, a commitment is that which, if the government doesn't honour it, it will have to pay costs as a result of its legal obligations. That's in the same way you would have a note on a private company's financial statements of lease arrangements or other obligations extending beyond the fiscal year that the corporation has undertaken.

There's a particular difficulty, it strikes me, when we look at the public sector and political commitments of a capital nature, which can change from year to year. If we say there's a commitment for $5 billion worth of highway projects, we all know that from fiscal year to fiscal year and government to government, you can't take those to the bank, and the spending pattern. . . .

THE CHAIR: No, but you talk about those highway projects that have been signed and sealed, where work has started.

D. SCHRECK: Precisely. But even then, if you look at the way a highway project is phased in, you don't phase in a billion dollars' worth of highway construction in one contract. It consists of numerous contracts, and there is an enormous controllable element there of being able to stretch out the length of the contracts for the entire phase of the program and do it in segments. It is not simply a matter analogous to a note on your contractual obligations for the lease of your computer equipment.

If the current statements are reflecting commitments to future silviculture, future highway projects or the other suggestions that staff have made here, then the number is probably not worth the ink that's used to print it on the page. Clearly something has to be done to sort out contractual obligations versus policy commitments.

THE CHAIR: What do they do in other jurisdictions?

K. CHAPMAN: Off the top of my head, I'm afraid I don't have an answer.

G. MORFITT: They're all over the place.

K. CHAPMAN: They're all over; that much I can say.

G. MORFITT: If you look at the audited financial statements of several of the other provinces — let's take smaller provinces — the figure they would show in that note could be four times larger than B.C.'s. They've scoped in all sorts of things other than what has been scoped in this province, and it can be the converse as well. So they're all over the place.

The point that we like to emphasize here is that there needs to be a strong definition, whatever that definition may be. It can be a debated definition, and we can finally settle on something. But it needs to be something that can be understood by each of the ministries, so that when they report, they're reporting on the same basis. Right now the figure is meaningless.

DEPUTY CHAIR: Point well taken.

K. JONES: I agree with what David said. One of the areas that we may also have to include is where we have interprovincial agreements or interagency agreements that may be commitments. They are committing, therefore we have to commit on an equal or proportional basis. I think those also should be included in that narrow commitment, because there is sort of a tie with another agency.

THE CHAIR: The item in the financial statements that we're discussing is just under note 19 of the consolidated revenue fund financial statements. That happens to be the one I've got here - contingencies and commitments.

K. CHAPMAN: Sounds right. Yes, part (c).

THE CHAIR: What you've dealt with there is a listing of some lawsuits that produce contingent liabilities. You've dealt with guaranteed debt that is off this statement. . . .

K. JONES: B15.

THE CHAIR: Hydro. Yes — page C15.

G. MORFITT: It's also in the back of this green book. We've reprinted it there. Again, it's B17. It sounds like the name of an airplane.

THE CHAIR: The one I was looking at is in a little greater detail on some things and not on others.

So you don't have a clear vision of what you'd like to see here? I don't mean that the wrong way, but no one's saying: "This is what we want."

G. MORFITT: We believe that there has to be a pragmatic definition. There doesn't seem to us to be any value in just having a scope so wide on these commitments that you include social programs, for example, where the government is committed to funding welfare programs, and you know that your welfare payments for the next year are going to be so many billion dollars, so you include those. We don't see the value in doing that. We think there has to be a reduction in scope to the point where you're really talking about material capital commitments — I think has been suggested — which are so far down the road that for the government to pull back on them would be most difficult.

THE CHAIR: It seems to me that we have in front of us the comptroller general's view. They are their statements. But perhaps the auditor general's office could provide to the committee at some future date a description of what you think would be most meaningful for the reader.

G. MORFITT: Are you talking to the auditor general or the comptroller general?

THE CHAIR: The auditor general. We already know what the comptroller general does.

G. MORFITT: We'd be pleased to work with the comptroller general's office, and bring to the committee, as best we can, where we are today and perhaps what we might try to move to.

K. CHAPMAN: If I could make one comment, as I said at the very beginning, we are currently, again, attempting to come up with something which is hopefully a little less ambivalent. We will be discussing this with the auditor general's office to try to come to a consensus on what these things are. Whether we will be able to agree is what you'll find in next year's report, I suspect.

THE CHAIR: Yes. But it seems to me that the process we're asking for is already taking place. I think this committee would be happy if we got an interim status report from that discussion, without having to wait for the public accounts at the end of the year.

F. RANDALL: I'm just wondering if there has been any discussion with the Minister of Finance or his staff about this matter?

THE CHAIR: That's the staff.

K. CHAPMAN: We're within it. We do discuss with other areas of the Ministry of Finance as we're going along — for instance, Treasury Board staff, treasury branch and anyone who is of interest.

F. RANDALL: Are they aware of the concerns here?

K. CHAPMAN: Oh yes. We have an ongoing committee which goes over specific items in the public accounts, discusses whether we should be changing them and comes up with recommendations.

F. RANDALL: Have they come up with any ideas?

K. CHAPMAN: No. I don't think it's going to be an easy one to resolve.

THE CHAIR: Okay. Let's move on to the next.

K. CHAPMAN: "Financial statements should disclose information to describe a government's acquired physical assets on hand and available for use by the government at the end of the accounting period." My best answer to that one is that we currently have a project underway in which we are reviewing physical assets of the government with a view to reviewing accounting policies and the whole issue of physical assets. Hopefully that one will be coming up with some recommendations within the next months or years. It's a major project. As we're going through it, we're hoping to come up with some reports on the subject.

K. JONES: In addition to reporting physical assets, I think it would be very useful to also have the current market value of those physical assets.

THE CHAIR: Wait until they get their accounts out.

K. CHAPMAN: This is actually going to be a part of the project. It's a major project, and the more we're digging in to it, the more we're realizing how big a project it's going to be. So part of it will have to be. . . .

THE CHAIR: How do you value them? The majority of our assets are unsaleable. How do you sell a road or a bridge?

DEPUTY CHAIR: The Socred government did. It wasn't that hard. [Laughter.]

THE CHAIR: Okay, Lyall, your turn.

L. HANSON: Got a good price, too.

THE CHAIR: But in the end, the purpose isn't to see what they're worth. The purpose is to have a feel for how much money the government spends year by year that is not on a consumption expense, but something that has some long-term life to it, surely. I mean that's really the exercise. You can't value the province.

K. CHAPMAN: We do currently record the actual amount that we're spending on fixed assets in a calendar year. There is a note to that effect in *Public Accounts* right now. We are referring here mainly to the assets out there that it has bought over the last period of time which are, in fact, assets of the government and do not appear on the balance sheet, because they've been expensed as acquired.

[9:30]

D. SCHRECK: This problem has different levels to it. On the one hand, there's how you value dams, roads and all kinds of assets that aren't going to go anywhere.

THE CHAIR: And who cares?

D. SCHRECK: You got it.

On the other hand, there's the problem of valuing trucks, cars, computer equipment, furnishings and equipment. If somebody walked into a government office and hauled off a semi full of stuff, one would have to have an inventory of it and be able to give evidence to the police that that was government property, in order to recover it in a proceeding. It strikes me that there may be some difficulty in that asset list — the kind of commonsense asset list that a small business would take for granted and have as a valuable part of the assets of that small business. Am I correct in assuming that those sort of haul-a-semi-full-of-equipment-away physical assets are not well documented?

K. CHAPMAN: I'm not involved in the details of it. My understanding is that assets of the government are itemized. An inventory of them is maintained. We are aware of what's out there. The main difficulty we have is in accounting for them in the central system. There's no record from that perspective, but a physical inventory is maintained. That is required under government's accounting or management practice.

THE CHAIR: So if something is stolen, you know what it is and what its serial number is.

K. CHAPMAN: It is my understanding that a record is maintained.

THE CHAIR: But you may not know how much it costs?

K. CHAPMAN: That presumably might not be there. I'm not familiar with all the details of that particular aspect of it, because I deal more with the central accounting system. I am aware that they do maintain records of inventories. Of course, the amount of recording varies depending upon the value of the asset.

K. JONES: Under B15 in the public accounts financial statement of 1990-91, there is a listing under 18: Physical Assets. There is a detailing under subheadings for the total value of the data and word-processing equipment, based on physical assets required as expenditures in the year they were received. There must be some record that's used to accumulate those dollars. I think that's probably an answer to your question.

THE CHAIR: If you go through the estimates, they're under STOB whatever — physical assets.

K. JONES: They also have buildings, lands, furniture, machinery and equipment all detailed as summary details. They must have backup to accumulate the summaries.

THE CHAIR: Those listings are purely and simply what was bought in this particular year.

K. JONES: No, in the year they were received.

THE CHAIR: Yes, that's right: what was bought in that year.

K. JONES: No.

THE CHAIR: Yes.

G. DAWSON: Yes, that's right, Mr. Chairman. As a matter of fact, our point. . . .

K. JONES: It says they're recorded as expenditures in the year they are received.

G. DAWSON: That's right. In other words, these amounts were received during that particular fiscal year. This note gives an annual listing of what physical assets were acquired by the government during the past fiscal year and with comparative numbers from the previous year.

All our point indicates is that, for this recommendation of the CICA to be fully complied with, you have a tally of all those years to date in order to give the public an idea of what physical assets — as opposed to financial assets, which are fairly well listed in the financial statements — are available to government personnel for their use in the exercise of their roles and in carrying out their programs. The whole point of the point is financial statement presentation of information to the public.

K. JONES: The annual disposal would be the part that would take down the accumulated information that has come over the previous years.

THE CHAIR: But they haven't been doing it forever, Ken — this building, all these things. Those records are way back. . . .

K. JONES: Has no asset inventory ever been taken?

THE CHAIR: Yes, that's what Ms. Chapman is saying. They have a complete list; they just don't have it costed.

K. CHAPMAN: Actually, the various ministries do; we don't. This is what we're trying to accumulate at this stage: to find out what is going to be entailed in attempting to come up with a list of the assets of the province and to put a value on them. Either cost or market is what we're going to be looking for. To some extent, as I say, this is going to be quite a major task. Although ministries have maintained records of the assets that they're holding, the values and things of this nature might not be associated with them. This is what we're attempting to determine at this time.

DEPUTY CHAIR: When we report our total provincial debt, is it strictly on the basis of financial asset versus liability? Or do we calculate all our physical assets into the provincial debt?

K. CHAPMAN: Physical assets have been expensed, so the debt that we have does not include any value for the physical assets we are holding.

DEPUTY CHAIR: Physical assets have been expensed in terms of paying for them, but do we then put it on the ledger side? Like when I have a car. . . .

THE CHAIR: No, write it off.

DEPUTY CHAIR: Is there ever any discussion about that by the CICA?

K. CHAPMAN: As I say, this is an approach that we're currently looking at. It is under discussion with the CICA. I don't believe they've made their final decision.

DEPUTY CHAIR: I'm talking about national debt and provincial debt.

K. CHAPMAN: Not on national debt. If we're talking about the deficit, the write-down of the assets has been included when you calculate your year-over-year deficit. In effect, your balance sheet looks worse than it would in, say, a regular organization. . .

DEPUTY CHAIR: Or a household.

K. CHAPMAN: . . .because they would keep their house, or what have you, on the asset side of the balance sheet. So it would look better from that perspective. In this case, because we write it off, the total amount of assets that we have are not nearly as high as what, in actual fact, is represented by the province's ongoing operations.

K. JONES: Is there depreciation?

THE CHAIR: No, they don't take depreciation.

May I close off this section by saying one last thing. The comptroller general's department should think about the cost of doing this and whether it's worth it, before you start. I know that it would be very nice for us to have a list and value all these things and, to make us feel good, say, "Oh, they come to $20 billion or $100 billion and our debt is only $19 billion or $22 billion," or whatever it might be, but in the end it doesn't matter a great deal. The public debt has to be paid from future taxation, and these assets are all here to assist the government in providing the services, whether it be through hospitals, schools or buildings, or whatever they need.

D. SCHRECK: It strikes me, Fred, that there are two problems here. One is the accounting exercise of what number you put on the books. That actually can be made no offence to the accounting profession — quite trivial, by simply taking the numbers that are currently reported, assigning some depreciation number to them and accumulating them, without ever having the back-up asset inventory. You've got a number that's probably as reliable as you're going to get on anything, and no great expense is involved. You could even put it back together retroactively from the financial statements of the last 20 years.

On the other hand, there's the problem of safeguarding the physical assets, which are public assets. One would expect that the line-level managers, who have the responsibility for facilities, should have an inventory of the assets, so if they walk away, there is some safeguarding of public assets, and you don't have personal computers going out the door or furniture and equipment missing, and that sort of thing. It's

conceptually a financial exercise, but it is a line-level management function that should be in place and probably should be audited from time to time to ensure that it is in place.

G. MORFITT: One other aspect is a very important issue in this. As you've heard, this question of physical assets will be discussed at great length over the coming years. One of the main reasons for looking at this is program costing. When you have a government program and physical assets as part of that program, and you expense them 100 percent in year one, it's greatly different than if you take that cost, which is a real cost to the program, and spread it out over the working life of the program. One of the driving questions here is: should we be costing physical assets and writing them down over their useful life, that when you look at what the cost of that program is over its full life, you have a true full cost of the program.

D. SCHRECK: I think the point that the auditor general raises is absolutely crucial in order to do any sort of program evaluation. I constantly hear complaints from the private sector that when you compare the cost of government doing something versus the cost of doing it by a quasi-governmental organization or the private sector, if you treat your capital differently in the three different organizations, you're comparing apples and oranges. Clearly there has to be some consistent basis for honest accounting.

K. JONES: Absolutely.

K. CHAPMAN: If I could make just one final comment, and that is that all these points have been discussed. Whatever we do, this item is still up for a great deal of discussion in the comptroller general's office. I'm sure it will also be discussed at great length with the auditor general's office over the foreseeable future. We're just getting started and doing some very preliminary work at this stage.

THE CHAIR: Now that was the final word, unless you really do want to.... Because I thought I had the final word before that.

K. JONES: I'd just like to emphasize that it's our desire to get beyond the discussion stage and to get this thing into action. We don't want to spend a lot of time discussing all the ramifications and parameters of it. Let's get on and get something started.

G. MORFITT: Mr. Barnard is sitting on a committee of the Canadian Institute of Chartered Accountants, which is dealing directly with this issue at this moment. So we have our man not in Havana, but in Toronto.

THE CHAIR: The next item, Ms. Chapman.

K. CHAPMAN: "The statement of revenues and expenditures should report a government's revenues the accounting period segregated by significant types of revenues from taxes, non-tax sources and transfers from other governments." We have, as a matter of fact, proposed to broaden our descriptions of these various sources. It was a fairly minor change. We have actually proposed a change to make this a broadening of categories for this fiscal year, and hopefully that should cover that one.

"Financial statements should present a comparison of the actual results with those originally forecast by the fiscal plan." This, I believe, is primarily a reference to the summary financial statements. Our problem there has been that we do not have the budget figures for the Crown corporations; at least, we have not had in the past. So those, of course, have not been included when we tried to do a comparison of actual versus budget. We're reviewing and revisiting this with the hope of maybe starting to add such things to our summary financial statements, but whether we will be able to proceed still has to be ascertained. We haven't completed our review in that area. That has been our main problem. We just didn't have the figures in the past for the Crown corporations.

THE CHAIR: In the instructions to the Crown corporations relative to their financial reporting requirements, the word "budget" doesn't appear? I mean, there isn't any requirement at all for them to submit their budgets to you, but there will be through some line ministry reporting function. I'd be surprised if there isn't.

K. CHAPMAN: Yes, there is through the individual ministers. I gather that they do have budgets that they submit to the ministers — my understanding is most of them, if not all. This year we have asked them to provide us with this information. I am not aware whether we have received it all at this stage. So we're making an attempt. Whether we will succeed.... To a certain extent, because the Crown corporations are independent, it's not quite as easy for us to....

THE CHAIR: Now as far as the consolidated revenue fund is concerned, do you make...? No, you just show it year over year. You don't make a comparison in the statements themselves.

K. CHAPMAN: No, we didn't last year, because the estimates had been produced based on the general funds, so that was what we compared to — the estimates. This year we are proposing not to produce the general fund financial statement and instead go directly to the consolidated revenue fund. In that case, we will use the comparison to the estimates on the consolidated revenue fund financial statements.

THE CHAIR: So you will, in those, show this year, last year and this year's plan?

K. CHAPMAN: That's right.

THE CHAIR: And you don't have any problems that some of the ministries partway through the year switched some responsibilities around. They were easy to define and....

K. CHAPMAN: Oh, we have problems. That is always a problem, though, and it's been a fairly ongoing one for the last several years.

[9:45]

G. DAWSON: We think, on this particular point, that it actually wouldn't be as difficult as it may sound to get the information. What we're talking about is comparing planned and actual results in the government's year-end financial statements. This is after the end of the fiscal year, not before the budgets are being run through. Quite honestly, the only thing that shows up in the note — and it would be much better disclosed if we had the information from their related consolidated and modified equity organizations — is the net budget result for the year — not even the total revenues and total expenditures. All that gets shown in the note — and it's page B18 at the back of this green book in note 21 — is the net result for the year, as projected by, for example, the B.C. Buildings Corporation. We see their actual result for the year was $8 million. We'd like to see the budget for $4 million or $10 million or whatever it might have been — break-even, balanced budget.... Similarly, for the modified equity organizations, which include B.C. Railway, B.C. Hydro, etc., all we have shown in this note is a total for all of those organizations — there are 20-some of them. So all you'd be doing is getting their net budget result that they have projected — say it was break-even or a $50 million profit or a $300 million profit for, say, Hydro, whatever it might have been — and a total of all those net budget results, and that would be compared with this number here, the actual result for the year, which was a gain of $114 million for the year.

DEPUTY CHAIR: So you just want the one column filled in.

G. DAWSON: That's all. It's just the net result for the year.

THE CHAIR: I don't. I want you to put the budgeted figures in all the different financial statements. That's what members want to see and look at.

DEPUTY CHAIR: At least it would be a start.

G. DAWSON: The note, as pointed out, would be a start. I guess what you're suggesting is that when you see the actual financial statements in *Public Accounts* of all these organizations, they also show their budgets for the year, and I guess that would be quite desirable. But none of them are doing that.

THE CHAIR: So this year for the ministries — for the consolidated revenue fund, anyway — we will have budget, actual and last year.

K. CHAPMAN: Oh, yes. That definitely will be there because....

THE CHAIR: But we didn't have budget last year.

K. CHAPMAN: You did.

THE CHAIR: But not in this one.

K. CHAPMAN: Yes, in the general fund financial statements it was there.

THE CHAIR: Okay, I've got the consolidated one. I'm not strong enough to carry them all.

G. MORFITT: I'll just mention a related issue that I think has to be considered by governments, including this government in the next little while — and I've mentioned this before — and that is the production of consolidated estimates.

Estimates in provincial jurisdictions across the country are all prepared based on the consolidated revenue fund. It goes back to a time when all the provincial governments only produced financial statements based on the consolidated revenue fund and didn't have summary financial statements which brought in all of their Crown corporations and agencies. More than half the provinces in the country now have summary financial statements, such as B.C. has had for over a decade. It was one of the first provinces to bring in all of that one-half of government that is attended to outside of the ministries and within the Crown corporations.

If we are producing summary financial statements at the end of the accounting period each year, why shouldn't that be related to a budget for the whole of government at the front end of the government's financial year? Now this means getting the budgets of the Crowns and other agencies into the estimates in some form or another. But the contention that my office would have is that if government is seen to be all of governments, and the Legislature has a responsibility for all of government, then it better know what the budgets are on a consolidated basis at the front end of the year.

So that issue is one that's going to be raised over the next year or two for your consideration and for the consideration of the comptroller general and for some discussion.

THE CHAIR: Makes sense. Does anyone have any further comments?

Back to you, Kit.

K. CHAPMAN: The next one is basically just a continuation of the one previous to it: "Planned results should be presented on a basis consistent with that used for actual results." We've prepared the public accounts, and when we present the financial statements, we have normally compared budget to actual, based on what fund the estimates were produced for. In other words, for the last several years, they've been prepared based on the general fund. So that has been where we've made our comparison in the general fund: financial statements. This year, as I said, we're proposing to produce the comparison to the consolidated revenue fund, which is a slight variation, because, of course, the estimates were produced based on the general fund. But it's possible for us to pull the necessary information out of the estimates to do it on the consolidated revenue

fund basis. That leads into the comments already made by Mr. Morfitt on the subject of comparisons.

Now whether or not we do want to expand our reporting to the Crown corporations and do estimates on those is a matter that I'm sure is going to be up for quite a bit of discussion.

D. SCHRECK: I'm sure we all appreciate that we're talking about a very far-reaching, fundamental change in reporting relationships and scrutiny here. It strikes me that there's another element to it, that the essence of budgeting in an operating company is fundamentally different and done for a different purpose than the essence of budgeting in a department or ministry of government which is delivering a program. In the case of a ministry of government delivering a program, what you're doing is laying out your spending intentions for the year, on something like hospitals, which you are going to deliver on, and failure to deliver on it means that you're really not living up to your original commitment to those institutions. Whereas in something like B.C. Rail, you're driven by the market of how much freight you're going to haul, and your budget is a nice estimate that any operating manager is going to change from day to day as operating conditions vary, because what matters is how both revenue changes and expenditures change. In an operating company there's a different concept of budgeting and strategic planning than there is in program delivery in a government ministry.

It strikes me that if we start mingling the two, when two fundamentally different concepts are involved, then we are not necessarily doing a service to public policy, that we are confusing the notion of true Crown corporations with the notion of program delivery.

THE CHAIR: Point well taken.

G. MORFITT: If I could respond.... It depends. I agree with that, and I think there's a lot of discussion that has to go on on this. At the same time, government has given marching orders to a number of these Crown corporations over the years as to how much they should try and raise on a net basis, so it's not totally a free market situation either.

K. JONES: Another aspect is that a lot of them are actually service organizations: B.C. Hydro, Transit. They're not in a competitive market. They're literally the market, and therefore they're just like another service agency of government. But I agree with your point that there are some of them, like B.C. Rail, that are somewhat quasi-competitive; in other areas it's not competitive whatsoever.

THE CHAIR: You won't have to deal with it after the government privatizes it.

Is there anything further?

K. CHAPMAN: No, those were the main points that were up for discussion. As I said at the beginning, most of the items that we still have outstanding are getting quite minor compared to what we had when we started out. Some of them are right down to the point where whether we can do them or not is the question. If we can do them, we are attempting to. In some cases it's a question of whether we agree with the evaluation that's being made, and those cases I think we rather skipped over today in two main areas. Otherwise, I think we have succeeded in meeting most of the PSAAC criteria or recommendations that are there. We're quite proud of the fact, actually.

THE CHAIR: Things have marched along.

Anything further, Mr. Auditor General?

G. MORFITT: Gordon Dawson is just saying that I might reinforce the comments of Kit Chapman and ones that I've made before, and that is that we are one of the leading jurisdictions in the production of financial information, for all the discussion we continue to have. We've come a long way in the last ten years. We are leaders, and we intend to stay there.

THE CHAIR: Well, we have covered the item that is on the agenda for the day. Perhaps we should adjourn now.

Thank you very much for being with us today.

The committee adjourned at 9:56 a.m.

WEDNESDAY, JUNE 17, 1992

The committee met at 8:56 a.m.

THE CHAIR: I call the meeting of the Select Standing Committee on Public Accounts to order. We have the agenda in front of us. May I have approval of it?

DEPUTY CHAIR: So moved.

THE CHAIR: Thank you. The first item on the agenda is amounts recoverable through future appropriations.

G. DAWSON: Mr. Chairman, I'd just like to mention that this issue — which covers half of page 12, page 13 and half of page 14 in our January 1992 report, which is the green-covered book — is one of the ten issues actually discussed last week when we talked about the CICA's public sector accounting statement No. 3, issued in 1986. We sort of passed over this particular issue last week and said we'd come back to it, because it's talked about in greater detail in our report to the assembly.

It relates to amounts that are sitting on the government's balance sheet that, in our opinion, fit into a category set out by the CICA. This is a category which indicates that although these amounts are sitting there as an asset, the only way that asset is going to be realized or repaid is from future payments from the government itself to the organizations out there that owe the money, to pay the government back. We don't believe these are valid assets sitting on the government's balance sheet. We recommend not that they be necessarily eliminated, but that a provision be applied against them — in other words, a charge made to the government's accumulated deficit and the offsetting entries, that these amounts be reduced in value to the amount that will be realized from amounts outside the government source of funding.

We have seen the Peat Marwick reports of March 1992, and they pretty well suggested that the same things take place. There was a recent report in Saskatchewan of a similar nature to our British Columbia Peat Marwick reports, and their financial management report of February 1992 said the same things. This is understandable, because essentially what we are saying, what Peat Marwick said in British Columbia and what the Saskatchewan special report said in that province after the election is that we should be doing the things that are generally accepted in the accounting profession — that is, having on your balance sheet only assets that are realizable from outside sources, not from sources that you have to provide funding for yourself. I think that's about it.

D. SCHRECK: How long has this gone on — the practice of including in a receivable significant amounts, in the hundreds of millions, of debt from agencies, transit and schools, primarily, which are only going to get their money from the provincial government? How long have significant amounts in this category been included in government receivables? Is it a recent phenomenon or does it go back decades?

G. DAWSON: No, it is not a recent phenomenon. It goes back about ten years to when the government started preparing a summary level of the consolidated financial statement. This specific recommendation from the CICA that indicated what should be done about these kinds of receivables came out in 1986.

D. SCHRECK: So it's a consequence of the consolidation and not a matter of trying to bury an issue. It flowed out of the change of accounting technique.

[9:00]

G. DAWSON: That is right, yes.

THE CHAIR: Is it true to say, though, that before this change came ten years ago, it wasn't that the accounts receivable were not being shown in the balance; it was just that the arrangement between government and these various bodies was such that it didn't cause this particular problem? The debts appeared as debts of the school board, the university or the various hospital boards. They were shown as the direct debtor to the person who had loaned the funds.

G. DAWSON: Yes. In fact, there was a sort of legal difference which still existed prior to consolidated financial statements being prepared. We have in British Columbia what are called financing authorities. So the money wasn't being shown as owing to the government, but as owing to these financing authorities. That is fine. The government, for example, provided the school district the money, the school district then repaid the financing authority, which then in turn repaid, for example, the Canada Pension Plan, where much of this money comes from in the first place. The financing authorities borrow most of their money from the Canada Pension Plan.

Now, with the financing authorities being part of the government's summary financial reporting entity — in other words, they are consolidated with the government's consolidated revenue fund in the government's main financial statements — that money is shown in the government's main financial statements as being due to the government itself, because the financing authorities are part of the government. There isn't a separate relationship anymore.

A. BARNARD: I did just want to talk to this, Mr. Chairman, if I may. There are some very interesting things happening with respect to the reporting of this kind of loan. In fact, the public sector accounting and auditing committee of the Canadian Institute of Chartered Accountants is currently putting out an exposure draft which deals with the whole question of loans that are repayable through future appropriations. I can assure you that the profession is very mixed in its opinion, and it is very much a developing set of accounting recommendations. To build consensus around this is going to be a little difficult.

In the handout I've given you, I'm trying to indicate a little bit of the history that Mr. Schreck was interested in. If you take a look at the first sheet, at the top you will see the structure that most of the schools, hospitals and universities were operating under about

ten years ago. That's when they were all borrowing direct from lenders, and the government was guaranteeing their borrowing. The accounting for this would then have nothing showing on the government's financial statements except for a schedule, which would show that the debt was being guaranteed by the Crown.

DEPUTY CHAIR: Alan, excuse me. Ordinary lenders — like regular banks, etc. ?

A. BARNARD: Banks, pension funds and things of that nature.

In order to take advantage of the government's preferential borrowing rate, the structure was changed, and the government became part of the process. Government went out and borrowed at its rate and then turned around and re-lent to schools, hospitals and universities. The difference that this makes is that on the government's accounts, it now shows a loan receivable from the organizations and a loan payable to the ultimate lender. This was purely a convenience to save the taxpayers money. The accounting implications are that if we follow the recommendation that because these organizations are wholly funded by government.... The accounting policy may drive a change back to the old process, where these people borrow directly from the market and have a government guarantee, because government does not want to see this as part of the debt. In terms of developing recommendations around this, there is a considerable body of opinion that says we shouldn't ever get into the situation where accounting policy is driving economic decisions, and I would agree with that. That's more or less the history of where we are today.

If you'll turn over the page, I've tried to capture here, in one example of schools, what has happened in terms of the way school funding flows and the difference that makes on accounting. Under the first case, where the taxpayers would be paying school taxes directly to school districts and the government is lending schools money for capital purposes, the way the government would account for that on its books is, again, to show the loan as an asset. There would be no indication that this would be written off as an expense.

If you move down to No. II, where the taxpayers would flow their money for school taxes through the government and then to the schools, which is the current situation in B.C., the suggestion is being made that we should now write those loans off and treat them as grants when they're made. The only real difference between the first two cases is the way in which the tax money flows through to the schools.

THE CHAIR: Alan, on this page, if we add in lenders, we remove the second vertical arrow on the upper form, which is going upwards, and we then make the arrow going from government to the lenders.

A. BARNARD: If government were borrowing from the lenders to lend to the schools.

THE CHAIR: Yes. If taxpayers were paying education costs to the school boards, then the arrow would go from the taxpayers to the schools to the government to the lenders.

A. BARNARD: True.

THE CHAIR: In the bottom one, it would go from the taxpayers to the government to the schools to the government to the lenders.

A. BARNARD: Correct.

THE CHAIR: I think that just makes it a little clearer.

A. BARNARD: If you turn over the page again, I have tried to set out two school examples and two hospital examples just to indicate the draft recommendations that PSAAC has come up with now. This is in the form of an exposure draft, which will be out shortly.

In the first instance, the government is formula-funding schools. There is just flat formula funding; there is no loan at all to the schools. Obviously there is nothing on the government's books, and there is no asset or liability. In the second one, where there is straight formula funding, based on the fact that school one and school two are getting exactly the same basis of funding through a formula, even though it is 100 percent of their funding, if the second school were to be borrowing for capital purposes, the government would set up the loan as an asset on its books. There would be a matching liability to the eventual lender. This is contained in a recommendation about the fact that there has to be a direct link between the borrowing and the repayment of that borrowing through grants.

If you move down to the next example, I just changed it to a hospital. Hospital one is getting straight government grant funding. There is no loan, so there is no transaction through the government's accounts at all. In the second case the same hospital goes out and borrows money from the government for a particular capital purpose. But in addition to its normal grant funding, it also gets an additional capital contribution, in which case there is a direct link between the borrowing and the grant funding, and that particular loan would then be treated as a grant. That is where the PSAAC recommendations are coming out as an exposure draft: that is, there has to be a direct relationship between the loan and the grant to pay it off.

THE CHAIR: That is true at the moment, though, in school capital funding, isn't it? There is in the grant to the school district a specific amount to cover the debt service costs. Isn't that true?

A. BARNARD: I'm not certain about all of the details in terms of the school funding that we currently have for capital. But if that were true, and if the PSAAC recommendations were to be followed, a loan of that nature would be treated as a grant.

THE CHAIR: If there was a consolidation that produced one financial statement which included all the hospitals, the schools and the universities, then the problem would go away, wouldn't it?

A. BARNARD: It would.

THE CHAIR: We'd have all the assets on the balance sheet: the buildings, the things and the debt.

A. BARNARD: No, that's not quite true. We probably would not have all the assets on the building, but we would not have the loan receivable from the schools, because that would be eliminated. We would show a borrowing from the outside lenders and no matching assets.

THE CHAIR: You would show the assets that appear.... The school board financial statements, the hospitals and the universities have capitalized all these assets.

A. BARNARD: But we would probably adjust those for our accounting policies, because they would more than likely be fully consolidated.

One of the things that the committee should understand is that the whole basis for the PSAAC recommendations at the current time is what is called the net debt basis. That is established to try to make sure that the main figure reported is the difference between financial assets and liabilities. That's why there are no non-financial assets recorded on government's balance sheets at the moment.

There is another project being carried out by PSAAC right now, which is also looking at the whole question of accounting for physical assets. Peat Marwick came out recently, and although they did talk about this issue of expensing the fully funded loans or loans to be met out of appropriations, they also made the recommendation that this be viewed in light of looking at the underlying capital assets and the treatment of those. So they didn't say flat out that we should expense.

D. SCHRECK: It strikes me that it may be the case that the primary link, once the capital spending has taken place and we are into the alternative accounting views, at that stage between the alternative accounting views and real economic activity is the question of liability for debt servicing. If the province is liable for the debt servicing out there that would be treated one way or the other in these alternative models, then it does affect current policy and should be reflected in some way in the provincial accounting. It strikes me that the difficulty with nailing that piece of jelly to the wall is that the debt servicing ultimately affects the school financing formula. But it's not clear that it's an add-on; it can be a trade-off. Therein is the conceptual problem of how to treat it, from my point of view.

THE CHAIR: What also happens is that in annual estimates or in the general revenue account, what we treat as a disbursement or as an expenditure for the year.... Yes, the money's spent. But the capital portion of the debt service that's moved out to the hospitals, the schools and the universities is shown as a current expenditure, whereas what it is doing is paying off debt — if one were to make the comparison to a commercial organization.

G. DAWSON: You're right, Mr. Chairman. As a matter of fact, in recent years — this probably goes back more years — for advanced education funding, public school funding, hospital funding and, for example, capital funding through the Transportation and Highways ministry for B.C. Transit, the amounts have always been shown and provided for separately.

THE CHAIR: In the various votes?

G. DAWSON: That's right, in the votes. So there has been separate provision for capital....

THE CHAIR: But they haven't been separated between interest costs and debt repayment?

G. DAWSON: No, they haven't.

Just a couple of comments, Mr. Chairman, while I'm here. On the handouts from the comptroller general, which are helpful, on the second page.... I'd just like to comment that the indication there is that the taxpayers provided the funding to the schools, which repaid the government. In fact, historically over many years, the taxpayers certainly paid taxes to the schools via the municipal taxation system. That didn't cover the capital costs of the debt borrowing that they had made through the government. Traditionally the government has always provided 75 to 80 percent of the debt service costs....

THE CHAIR: You're now talking to an expert on that particular subject.

G. DAWSON: That's right.

So it looks here like the taxes provided all the money to repay the government, but in fact it's mostly for the operating costs.

A. BARNARD: Just to clarify, this was not presented to indicate how B.C. currently operates or anything. This was trying to create the difference in accounting treatment that would flow if the taxes were paid directly to the schools. That was my other point.

[9:15]

THE CHAIR: The process used to be that the first 6 mills of debt service costs was split fifty-fifty; the next 6 mills was split 75-25, with the government paying 75; and everything over 12 mills of debt service was split 90-10. We used to carefully stay in the 90-10.

G. DAWSON: I think that, as has been pointed out, there a lot of issues here: the funding of schools or hospitals.... In our view, a different accounting treatment, as Mr. Schreck sometimes points out, should have no effect on how the programs are administered or how the funding is provided. We don't believe that this would have any effect on how the borrowings take place and on the moneys provided to these funded organizations or Crown corporations like B.C. Transit. I think it's an accounting issue. It's an issue that relates to if the government's balance sheet really shows the assets it has on hand and available for use.

Quite honestly, we believe that to this extent. . . . It's our calculation, based on the prior year's balance sheet, that there's something like well over $2 billion shown as being financial assets of the government. They're really not assets at all, according to any definitions we've been able to research.

V. SKAARUP: I disagree with Mr. Dawson. Having to expense fiscal agency loans would not have any impact on how programs are administered, in fact. It would provide a powerful incentive to government to stop borrowing on behalf of these agencies. The government could either have them borrow directly, which would significantly increase costs to taxpayer overall, because we have to give higher grants to the schools, etc. to pay for the higher interest costs; or alternatively, the government might decide to establish a Crown corporation that could borrow directly on its own, then re-lend to these fiscal agency authorities, which then get grants from the province to repay the Crown corporations, which would repay the lenders — which would keep it all off the government's balance sheet. So there are some definite powerful incentives. There are ways to get around this accounting treatment, to keep it off the government's balance sheet, under PSAAC's recommendations, but it results in a more complex and potentially more costly way of administering the program in the long run.

Two points. Gordon keeps talking about assets on the balance sheet, but he's really talking about financial assets. We need to realize that fiscal agency loans are given for the purpose of the acquisition of capital assets that are going to contribute to delivery of services to the people for considerable periods of time. As Alan pointed out, Peat Marwick recommended that we hold off making a decision to expense these loans until we reconsider whether we should be expanding the number of types of assets we show on our balance sheet. To that end, we had a meeting last week with the representatives from the auditor general's office and came to an agreement on some acceptable increase in note disclosure in the upcoming financial statements to explain the transactions that were going on, while we continue to do research into the whole issue of which assets, or additional asset categories, should be placed on the balance sheet.

THE CHAIR: Would it be a thought that in the intervening period you split the fiscal agency receivables — show them in two separate groupings — between those that will be primarily paid from outside revenues or sources like Hydro, as the best example, and those that will primarily be paid by government appropriations?

V. SKAARUP: That was along the lines of what we were going to do in the note — to split it into the two components.

THE CHAIR: Gee, you should have asked me a couple of years ago. It would have saved a little time.

G. DAWSON: I would think that would be an excellent idea, too, because again in terms of openness and disclosure, that will at least tell the public what the situation is with regard to that asset category.

DEPUTY CHAIR: Some jurisdictions do that.

G. DAWSON: They do.

THE CHAIR: Why do you just do it in a note? Why not actually split it on the balance sheet, with fiscal agency loans. . . ?

G. DAWSON: That would be even better, that's for sure. Financial statement disclosure, as opposed to note disclosure, is always better.

A. BARNARD: There are some complications with doing it on the balance sheet, in order for the figure to be auditable. If you take universities, for example, I'm not quite sure that we would be able to successfully calculate which portion of the loan was going to be repaid through future appropriations, and which portion was going to be paid through student registration fees.

THE CHAIR: Except I wasn't suggesting that you would split them. I was suggesting that you classify them by primarily paid, and primarily paid through. . . .

A. BARNARD: That's why in my view it would be better to do this as a note, rather than put it on. . . .

THE CHAIR: But student fees only amount to roughly 10 percent of university revenues anyway, don't they?

David.

D. SCHRECK: I think you dealt with my point.

G. DAWSON: I would just like to say one more thing on what Mr. Skaarup said about the possibility of creating a separate Crown corporation or something of that nature to handle funding of this nature to these organizations. With the current, what we consider to be much improved, accounting by governments, the creation of Crown corporations is no longer a way to get away from good disclosure, because Crown corporations, if they're owned or controlled by the government, would have to be brought into the government summary reporting entity anyway. So you can't, like you were able to do some years ago, create a Crown corporation to conceal things out there. Nowadays you have to bring those into the fold, at least in the government summary financial statements, and whatever they have in their accounts have to be included in the government's overall accounts.

THE CHAIR: Do you have any points, Joy? David, anything further? We seem to have canvassed the subject pretty thoroughly. I think it would be nice if we could develop a resolution of the committee to support the kind of thing that you are proposing.

DEPUTY CHAIR: Alan has referred to an exposure draft coming out of PSAAC dealing with this very

issue. I think it would be appropriate for us to examine that exposure draft, and maybe it's an adoptable issue by our committee. When will that be out, Alan?

A. BARNARD: I'm not sure of the exact publication date, but it should be by fall — September or October.

THE CHAIR: So in the meantime, for the purpose of this committee, which will probably have its final meeting next Wednesday, I'd like us to develop a resolution for inclusion in the report that will encourage the type of discussion they had yesterday.

V. SKAARUP: Actually, it was Friday last week with Frank Barr, who has sort of replaced Mr. Dawson now as responsible for the attest audit. We agreed that we would improve or increase the note disclosure on this issue as an interim measure, while we continue to wait and analyze the exposure draft that's coming out from PSAAC, and also explore the issue of accounting for assets and whether we should be expanding the types of asset categories we have on our balance sheet.

THE CHAIR: Alan, would you be good enough to arrange for this to be put in resolution form for us, and we could deal with it. . . . Oh, we need it dealt with at this meeting to put it into the report.

A. BARNARD: Mr. Chair, if the committee feels comfortable, we can certainly work up a wording together with you and maybe Mr. James, and make sure that we've got something which is suitable to you.

THE CHAIR: Is it a technical problem that we don't have a quorum to pass the resolution?

Interjection.

THE CHAIR: It is. Okay, well, let us leave it until we get to adjournment time and see if we've got a quorum, so that we can pass the resolution in principle and include it in our report.

A. BARNARD: There's one additional point on this, Mr. Chairman. Ms. MacPhail was talking about the public exposure draft on the accounting for loans receivable in government financial statements. I am wondering whether committee members would be interested in getting copies of that to look at when it comes out.

THE CHAIR: Yes.

A. BARNARD: I am sure that PSAAC would be only too anxious to hear people's comments.

THE CHAIR: Is there any draft that might be of some use when we go to New Brunswick in a couple of weeks' time to talk to members of other public accounts committees?

A. BARNARD: There is, but these tend to be confidential until such time as they are put out as the exposure draft, because there are slight wording changes and slight refinements that were put onto it at the meeting I've just got back from.

THE CHAIR: If everybody's comfortable with this subject, we'll move along to the next item on the agenda, which is defining the government reporting entity.

G. DAWSON: Mr. Chairman, that's on page 18 of our January 1992 report, the green book.

Just by way of introduction, I can mention that, again, following along on some CICA recommendations for government financial accounting and reporting, one of the major issues that they pronounced on a few years back was which organizations should be included in the government's financial statements — just the consolidated revenue fund, some of the Crown corporations or schools or hospitals.

The CICA did pronounce, and they essentially came out with certain criteria for determining what should be included in the government's main financial statements. After some study in British Columbia, those criteria were fortunately adopted by the B.C. government a year or two ago. We commented, in a complimentary way, that we are pleased the government has adopted what the accounting profession considers to be the most appropriate reporting entity for government financial statement purposes.

As we mention on page 18 here, those criteria call for including in the government's financial statements the financial affairs of those organizations that are accountable, for the administration of their financial affairs and resources, either to a minister of government or directly to the Legislature, and that are owned or controlled by the government. So they have to be financially accountable to either a minister or the assembly and be either owned or controlled. There are things that come below that in trying to determine what ownership is and what control is, and there are further details. But a couple of years back, the government of British Columbia did adopt these recommended criteria. So that is all good, in principle.

However, when you get down to the details, there are certain organizations that at least our office believes meet these criteria and should therefore be included in the government's financial statements. Primarily, they fall into two categories. One category comprises the advanced education institutions: the province's four universities, the colleges and institutes and the Open Learning Agency. One other category has just one organization: the Workers' Compensation Board.

Then there's another category that's still up in the air — we're not sure, the government isn't sure and the accountants aren't sure — and that's the entire issue of hospitals. No one is too sure who controls those and who owns those, so that has to be researched further. We can go into that further later on if you wish. For example, some hospitals do have a majority, or all, of their members appointed by government, but that's probably 10 percent or less of hospitals. The rest are essentially run by societies that are locally constituted.

The main issue on this point is that we believe it's fairly clear-cut that the advanced education institutions

in the province, as well as the Workers' Compensation Board, should be included in the government's financial statements. We have some explanation here on both those categories. Of course, the comptroller general's office and the accounting people in the government disagree with this perspective, and they can comment on that.

[9:30]

A. BARNARD: It always gives us something to talk about at our meetings.

Maybe I could present, if you will, the contrary view — not necessarily contrary, but a slightly different viewpoint on this. B.C. got into the business of having consolidated financial statements before the public sector accounting and auditing committee came out with its recommendations vis-à-vis how you would consider which organizations to consolidate into the summary statements — in other words, determining the entity. We went through the process of trying very hard to develop some criteria that would create an entity which, in our view, made sense from a reporting point of view. We did not think that it made much sense to include the universities as part of the government, nor did we think it was right that we should include schools or hospitals or the Workers' Compensation Board. There are several reasons for this. One is that it tends to mix up a wide range of activities that are only marginally controlled by the government. The government has de jure control; it does not have de facto control. For example, I don't think most universities would consider themselves to be controlled by government.

We've had quite a lot of discussion around this. Across the country, there is a group of people who feel that he who pays the piper calls the tune. Therefore anything that government, in essence, funds to a large extent should be included in the entity, which would drag in all the schools and hospitals. There are others who say: "No, that makes absolutely no sense. Just talk about government itself and those things that are closely held." We've had a lot of discussion about criteria versus pragmatism, usefulness of the statement to the readers and what the readers actually want to get out of the summary statements. In some cases, are there other ways of providing the information, rather than doing a full consolidation of all these entities?

Another issue that has caused some concern across the country is that the legislative provisions around some of these organizations change as you move across the country. You would then have government in B.C., for example — if we followed the auditor general's recommendation — which would include universities, whereas Ontario's clearly wouldn't.

THE CHAIR: Because?

A. BARNARD: Because the legislative framework around universities in Ontario is different from in B.C. They would not be controlled, therefore they would not be part of the entity. Just conceptually, to ask that doesn't make much sense, because it would seem to me that one of the advantages of having standard accounting across the country is for the purposes of comparability. If summary statements in one jurisdiction include universities and another one doesn't, I don't think you've got comparability.

There are a lot of issues around the entity that I don't think have yet been cleaned up. I know PSAAC has come out with its recommendations, but there are a number of jurisdictions that haven't got quite as far down the track as B.C. has in terms of producing summary financial statements. I guess our issue at the moment has been that we don't want to leap too far ahead on this, until we see where other organizations are coming out as well — in order to try to create this comparability and create a pragmatic, user-useful entity and set of summary financial statements.

D. SCHRECK: I have to begin by saying that the hospital question fascinates me, partly because I was about to write a paper on this in my consulting days before the election interfered with my life. I hope we explore this further at some point.

As for the other matters, I have to say that I'm somewhat more sympathetic with Alan's perspective. I have difficulty with where we draw the line to include universities and not municipalities. One can say that municipalities have their own power to tax, but that's purely a power given to them by statute from the province, and it can be played with as the province chooses to change statute. The whole question of whether or not municipalities should be recognized separately in the constitution really provides further evidence to the fact that they are, in our system of government, creations of the province. As such, if we are going to say that universities — which are fiercely independent — should be consolidated, I think there would be an equal argument to consolidate municipalities. Since I think most folks would reject that notion as defying common sense of an independent level and just confusing matters, I don't see how we could move on something as fiercely independent as a university and not include.... What's your constituency, Fred — Delta?

THE CHAIR: Except that municipalities are funded by local taxation.

V. SKAARUP: In terms of our reviewing this whole issue, we looked at whether we should be going beyond PSAAC, as was just outlined, and bring in municipalities and school boards. We control them through the purse-strings, even if we don't control them through the boards.

On a technical level — which we can get into details of if you like — we don't agree with the auditor general that the government has control, as defined by PSAAC, over the universities, because the government does not have the power to appoint the majority of the board members unilaterally. The Workers' Compensation Board doesn't meet PSAAC's criteria for consolidation because they're trust funds, and PSAAC excludes those.

An interesting example of where we agree that a group of organizations do meet PSAAC's criteria for consolidation and the results that would take place is the colleges and other post-secondary institutions.

They clearly do, and we acknowledge they meet PSAAC's criteria for consolidation, but we don't currently consolidate them. If we were to consolidate them, given that they would be fully consolidated — in other words, we would expense their assets — we would increase the equity deficiency by $1.5 billion. On the other hand, if we were to bring them in and fully consolidate them, but we capitalized assets, we would reduce the equity deficiency by $500 million. There is basically a $2 billion swing in terms of accounting only by bringing them on. If we brought them on under our current accounting policies, we would reduce equity by $1.5 billion to expense $2 billion worth of assets.

To what extent would that have improved your understanding of the government's financial situation by reading the summary financial statements, if we consolidate the colleges?

K. JONES: I think we have to look at this on the basis of if we took the funding that comes from government away from any of these agencies — either their ability to tax or their actual funding — then would they be able to stand on their own? Are they dependent upon government in some way to operate? If they are able to stand totally alone, then I agree with your concept that they should not be reporting. But if they are part and parcel of and dependent upon the financing from the government, and in many cases the board.... In the case of WCB, the board and the chair are all appointed by government. Even though they may have a trust structure, there is still a control aspect there, and they should be included in this reporting entity. I agree with the auditor general's position.

THE CHAIR: Is there any difference in your present treatment of WCB and ICBC?

V. SKAARUP: Yes, but WCB does not get any funding from government, nor does it have any debt guaranteed by the province. They are basically dealing with the money of the employers, who are contributing to the workers' compensation plan.

THE CHAIR: But in ICBC you're dealing with the money of the people who pay the premiums.

A. BARNARD: There is one critical difference, in my view, and that is that any surplus or equity out of the Insurance Corporation belongs to the province, and the surplus that exists in WCB does not belong to the province. To me, it would be wrong for us to show WCB equity on a consolidation as somehow being government money, because I don't think it is government money. I think it belongs to the employers and the employees.

DEPUTY CHAIR: I am actually having a bit of difficulty understanding why we would consider the inclusion of WCB on the very basis that Mr. Barnard outlines. There has been a precedent set where the surplus has gone right back to the employers. Isn't that what that $100 million in the mid-eighties did?

K. JONES: Maybe that was a mistake.

DEPUTY CHAIR: Certainly, we on the union side objected to it horribly, but we lost in court.

G. DAWSON: With regard to WCB, our office considers it very similar to ICBC, as we indicate in our report. I think we also mention that Alberta includes their WCB, the Territories do, Manitoba does — all the places with summary financial statements. Ken Dye, the former auditor general of Canada, is very aware of these criteria developed by the CICA. He believes the organization should be included in the government's summary financial statements.

When you refer to the WCB as a trust organization, yes, there are surplus moneys in the provincial treasury for investment that would certainly be shown as trust moneys, whether included in the entity or not. There is no question about that. But they do far more than just administer moneys in trust. They're not just a legal office holding some money in trust; they administer all kinds of programs for employers to employees. On that basis, they're an operating organization like ICBC, and we believe they are a major Crown corporation. They should be included in the government's reporting entity; they shouldn't be excluded.

THE CHAIR: In the end, if one wants to look at the financial position of the government.... There is no way that you go just to the summary financial statements; you go to everything. The more we push into the summary financial statements, the more meaningless they tend to become. They just become a big jumble of all kinds of stuff, rather than the clearly defined organizations that you can look at. If you put together a consolidation of everything in the book.... So it's really nothing more than a mathematical compilation.

D. SCHRECK: That's just a shock from an accountant: isn't that what accounting is, anyway?

THE CHAIR: I have sitting on my wall at home a nicely framed article I meant to bring this week to present to all the members of this committee so that they would understand. It's called: "Why Accountants Are Not Boring." I will remember it for next week.

DEPUTY CHAIR: We'll need it. We need it the reassurance.

K. JONES: Aren't we talking about the reporting process itself — who should report — not the consolidated reporting or how it's consolidated?

A. BARNARD: No, we're talking about those organizations that should be consolidated into the government's reporting entity for the summary statements. It would mean doing a line-by-line consolidation of the universities, a line-by-line consolidation of some hospitals, a line-by-line consolidation of WCB.

K. JONES: You don't object to the reporting of those entities without necessarily the consolidation into the public accounts.

A. BARNARD: They have to report by law as a separate set of financial statements. They produce those. They are reported, and we cover a number of them.

THE CHAIR: We don't actually have the financial statements of the universities in here; we just have the summary at the back with the total assets and liabilities.

A. BARNARD: We used to put the university statements in there.

G. DAWSON: Mr. Chairman, I would just like to comment on a few things that have been said.

THE CHAIR: Can you hold the phone a second?

DEPUTY CHAIR: I have to go.

THE CHAIR: I understand.

I have a nicely worded resolution here dealing with the earlier subject: that this committee recommends that the government increase its note disclosure of the fiscal agency loan program regarding loans repayable through future appropriations until a review of physical asset accounting can be completed and the public sector accounting and auditing committee of the Canadian Institute of Chartered Accountants has issued a statement on accounting for loans receivable.

I'd like this committee to adopt that so that we can get in our report, which we'll have to deal with next week. So what I plan on doing is trying to get a meeting at 2:30 or something for three minutes, so we've got six of us. . . .

DEPUTY CHAIR: Today, you mean?

[9:45]

THE CHAIR: Yes, just so we get six of us — maybe even outside the chamber — just for the purpose of getting this approved by a quorum. We don't have a quorum. And we're at our last meeting but one, which is another subject I just wish to speak to before you go. You have on your desks the latest draft of our report. We will need to approve this at our next meeting, with any additions that might come from this meeting — the only one of which would be this — so that we can table it in the House before the House rises.

D. SCHRECK: How many of your other members are here, Fred?

THE CHAIR: We only have one other, and he's off sick.

So if we could just caucus this afternoon for a couple of minutes — that is all it will take — we can deal with this.

DEPUTY CHAIR: We'll see. I'm not here; I'm gone.

THE CHAIR: Okay, well, I will try and get six of us, if that is acceptable.

D. SCHRECK: After question period for three minutes, and we will need Clerks and *Hansard* to make it official.

THE CHAIR: Yes, it will only take a couple of moments.

C. JAMES: If I could just make a suggestion to expedite it, why not just have this recommendation tabled, and we can make sure that all the members have copies of it for discussion at the meeting next Wednesday morning?

THE CHAIR: And we could put it in the report. . . .

C. JAMES: It would just go in the report, and then members would have copies of the report Monday.

THE CHAIR: Fine. So if you would, please, before next meeting. This is a fairly standard thing and just summarizes those things that we've been doing, but we should deal with that next week.

Sorry. Where were we? We had discussed ICBC and WCB and not getting the statements too complex.

V. SKAARUP: You'd asked about the university financial statements, and they're not in *Public Accounts*, but the WCB is in the trust fund section. Our practice is that we only put into *Public Accounts* the financial statements of either entities that are part of the consolidated reporting entity or are trust funds administered by the government, where they produce financial statements.

THE CHAIR: In that other little summary that you have. . . . That does include the universities, yes.

D. SCHRECK: We're drawing a distinction between having the reports, which we do, versus consolidating them, which is an exercise of dubious merit.

K. JONES: I think we should call for the reporting of all of these entities to make sure that everyone is included, and then just. . . . I don't think there's a necessity to consolidate them, unless the auditor general can give us some information that suggests why we should.

G. DAWSON: Well, that's an issue that goes back some years and actually has been adopted by the government. As I say, I think one of the most significant things that's happened in British Columbia in the past ten years is that we did achieve having summary consolidated financial statements, just like a large corporation. It's much more informative and useful for readers to have a total picture of where the government stands, or where any organization stands, than just a picture of a bunch of component parts. It seems very odd to me to hear comments that the summary financial statements aren't the best vehicle. We certainly believe, and I think our accounting profession believes, that summary or consolidated financial statements are the best way of informing the shareholders or the people

with an interest in the organization as to where that organization stands.

There was a lot of comment a couple of years ago about the questions about the government's true deficit or what have you, when the government moved from consolidated revenue fund level of financial reporting down to general fund level of financial reporting, and this caused considerable confusion for two or three years. Now that we're sort of getting things looked at from the summary financial statement perspective, we think this is nothing but beneficial for the citizens.

I think it's very desirable to have that summary level of reporting in addition to.... As one of the comptroller general's staff just pointed out, when you have summary level financial statements, you also have the audited financial statements for all the individual components included in the public accounts. If you don't have those, you may have little summaries at the back with total numbers, but those aren't very meaningful.

I think some of the comments that have been made, for example with WCB being combined on a line-by-line basis.... That would not be the case. Just their net position would be included in the government's financial statement, so it wouldn't be a difficult exercise at all. It would be picked up the very same way as B.C. Hydro and B.C. Railway are currently picked up.

There were some questions about municipalities or school districts. Well, again, if you go by the accounting profession criteria, which the government has adopted, where you have organizations with separately elected boards, which are separately accountable to their constituents, then those organizations are not intended to be included as part of the government's summary reporting entity. That's why school districts and municipalities aren't meant to be included in the government's financial statements based on the accepted current criteria.

All in all, I would say that summary financial statements are most important in our view, but that doesn't mean you wouldn't get the individual statements. In fact, it means the opposite; it means you would get the individual audited statements if the organizations are included in the government summary reporting entity. We think it's most important to have all the appropriate organizations included.

K. JONES: What would be the net result of creating this consolidation? What difference would there be? What would the public see that's different from what we've got currently?

G. DAWSON: I wouldn't have the current number, but the main result is that you would have a truer picture of, for example, the net deficit figure. That would be the main number, as Alan Barnard mentions, that the government is responsible for.

THE CHAIR: It is interesting to see that our school boards jointly have a net equity of $2 billion, but $3.5 billion worth of assets which you'll probably write off.

A. BARNARD: It would make at least $5 billion worth more accumulated deficit.

THE CHAIR: The hospitals have a net equity of $1.5 billion, and they've probably got assets of $1.5 billion that you'd write off.

V. SKAARUP: Hospitals would increase our liabilities by a quarter of a billion dollars.

THE CHAIR: But there are some cash assets, Vic, in that $1.717 billion.

V. SKAARUP: School districts would increase liabilities by roughly $1.7 billion, and colleges and universities would increase liabilities by roughly $767 million. The amount of assets we would bring on the books wouldn't be very great, because it's based on their funding. They never have large cash balances in terms of financial assets. The main thing is that we would significantly increase the liabilities reported, significantly reduce the government's net equity and not be reporting substantial assets — almost $10 billion worth.

D. SCHRECK: Clearly the decision should not be made on the basis of simply whether it increases the nominal deficit, because the bond-rating agencies are not fools. They know that those liabilities exist. It does strike me that comparison between provinces is extremely important. The more comparability we can have, the better off we all are. So with the exception of the problem of making the consolidation consistent with other provinces, I can't see any reasons for really resisting it.

THE CHAIR: I must admit I don't have terribly strong feelings about the subject. Does the committee wish to pursue this any further?

K. JONES: From what I've heard, and I agree, we shouldn't be playing games with the debt-equity ratios and that sort of thing — which is possibly what has been done in the past. They haven't included it, in order to make us look better in some eyes. Obviously, as the member said, the rating agencies aren't blind. They take this into consideration. Even though we don't report it, they know that it's there as a factor.

D. SCHRECK: In fairness, I don't think anybody is playing games with it. It is a conceptual question within public accounting. For that reason, and since it is still under discussion, I think that if we deal with this conceptual problem in the next session of the committee, as opposed to the report that is due next week, the world will not come to an end and we can all survive it quite nicely.

THE CHAIR: I agree with you.

K. JONES: Absolutely. But I think that we should probably encourage the two agencies here to work out their differences and maybe come up with a way of addressing this.

THE CHAIR: PSAAC is going to have an effect on it, aren't they, as we move along?

K. JONES: Maybe out of your meeting back east there will be some further insights.

THE CHAIR: If there is nothing further on that, I've got one other item I'd like to bring up to the auditor general: when can we expect your annual report?

G. DAWSON: For 1992 — I believe it is due to be ready by the end of June. That is the best information I have. That may or may not be during the current session, but I believe it's supposed to be ready by about the end of June.

K. JONES: Can you speed it up by a week? [Laughter.]

THE CHAIR: I'm not sure we want them to.
Your last one came out in March 1991, and then you had your interim January one.

G. DAWSON: That's right. I think we had most of the information ready for the 1992 report by early April, but we've had difficulties with two of our reports with regard to two of the ministries. Because of those difficulties, which we wanted to get resolved before we issued our entire report, George has been working very carefully and diligently with these two ministries. He didn't want to leave these two reports out of his overall report, so he has been working with the ministries, the deputies and the new ministers to try and get these two reports satisfactorily discussed.

THE CHAIR: Would you just pass on to the auditor general that the matter was inquired about by the committee and that we are interested in seeing the report?

K. JONES: Is it possible to find out what two ministries they are having difficulties with?

G. DAWSON: I think I'd rather not say.

A. BARNARD: Mr. Chair, I was just reading the minutes of the last meeting, and there was a suggestion in there that the comptroller general should come forward with some information vis-à-vis the inclusion of organizations reporting under the Financial Information Act. We do indeed have a handout for you today on that matter.

The point that should be clearly understood is that if government were to accept the recommendation to include all organizations that are part of the consolidated reporting entity under the Financial Information Act, it wouldn't do any harm. But there are some organizations included in the reporting entity that are staffed entirely by public servants, and their reports would be totally nil. It seems somewhat pointless, in my view, to require the British Columbia Regional Hospital Districts Financing Authority to report under this act; the same with the Health Facilities Association and several other organizations.

THE CHAIR: I'm sorry, let me just get my mind to where we are. I'm running along behind you trying to catch up. This is in relation to the suggestions that we made regarding the Financial Information Act to pull in bodies that are presently not required to have available to the public the type of information required under the FIA.

A. BARNARD: Yes. The recommendation coming from the committee is that all organizations that were part of the consolidated reporting entity be required to report under the FIA.

THE CHAIR: That is the resolution that we didn't make, isn't it?

K. JONES: Yes, we did.

THE CHAIR: No, we didn't. The resolution was not.... The minutes say that for the purposes of the Financial Information Act, a corporation means "an organization or enterprise that is included in the reporting entity for the purposes of the government's summary financial statements. A debate arising, it was on motion of Mr. Fred Randall, MLA, adjourned." We did not vote on that subject. We were waiting for a response. I think if we go back to *Hansard*, we will see that that's the case. What you've given us this morning is the comptroller general's response to this.

A. BARNARD: In essence, yes. There are a number of bits of information included on the sheets: the organizations that are currently required to report and those that are not. I think the critical issues are on the last page but one, where we talk about the fact that no additional information would be made available if they were swept under that blanket type of resolution. On the next page are those organizations that would be producing more information for the public and would be captured in the resolution.

I am just asking the committee whether or not they wish to target specific organizations within the entity or continue to go forward with the recommendation that all be swept in. It makes a number of organizations file a zero report, which, as I said before, seems just a touch pointless. It might be more efficient to target the organizations that should make the information available.

THE CHAIR: The reason we went the other way was that it then doesn't require change after change in the future. The organization gets created, if it meets the criteria, and it's in.

[10:00]

A. BARNARD: That's true, but then also all sorts of new organizations are being created that would be reporting through different mechanisms — through the criteria established in the act, by their own specific legislation or because they are added to the schedule by order-in-council.

G. DAWSON: On the other hand, just on that last point, new organizations being created or being added to the summary reporting entity may not be added by

other means to the requirements of the Financial Information Act.

I would like to comment on the organizations that are wound up or that don't have employees, as Mr. Barnard just pointed out on the second-last page. The point of the Financial Information Act isn't only to disclose salaries of people who work for those organizations. That's just one of the schedules. One of the most important things about the Financial Information Act is that the financial information of the organization is to be made available to the public on the payment of a $5 fee within six months of its year-end. So even if an organization like the one Mr. Barnard pointed out — the B.C. Regional Hospital Districts Financing Authority — has no employees and was covered by the Financial Information Act, any member of the public could get a copy of its financial statements within six months of its year-end. We think, again in terms of openness and disclosure, that is important, whether the organization has salaries or not.

The same with the British Columbia Year of Music Society or the Housing Corporation of British Columbia. They may be in the process of being wound up, but if a member of the public wanted a copy of their Financial Information Act report, which maybe had a balance sheet with zeros on it, fair enough. They pay their $5, and they get to see that the organization is pretty well wound up. The information is at least made available to the public, and we think that's important.

I think for all government organizations — in other words, in the summary financial statements — it seems that that's reasonable to be required. Most of the others are required to show that information. Why not all of them?

K. JONES: I think that was basically the content of the discussions previously, and I think we are basically in agreement that we wanted an open disclosure of this and that we should consider adopting the resolution as was recommended previously.

THE CHAIR: Just a couple of items. I see one of my favourite subjects. I'm really looking forward to the B.C. Year of Music Society. They'll remain on next year's statements, won't they — 1991-92? I want to talk about the B.C. Year of Music.

D. SCHRECK: We're all looking forward to that, Fred — save maybe the third party. [Laughter.]

THE CHAIR: That $5 just happened to ring a little bell. Is everybody who gets this information required to pay a fee of $5?

G. DAWSON: That's the current rate that is set in the regulations.

THE CHAIR: Where does that $5 go?

V. SKAARUP: Miscellaneous revenue.

A. BARNARD: That's very interesting. When you've got a defunct corporation, it suddenly means we've got to open up a bank account, and everything else, to put the $5 in. Some of these organizations don't even have bank accounts anymore. They are shell corporations.

THE CHAIR: Seriously, I bet it costs more than $5 to record it and fuss around with it.

A. BARNARD: I think we would give it away.

V. SKAARUP: It depends on the organization. If it's a government Crown corporation that's defunct, the ministry responsible for it may deposit it in its miscellaneous revenue, the CRF. If it's something like a school board, they would put it in their bank account under miscellaneous revenue.

THE CHAIR: I bet it goes in the coffee fund.

G. DAWSON: In the course of our audits over the past two years, a lot of the organizations just handed the information to us and waived the $5.

THE CHAIR: Is there a requirement in the act for the $5 fee?

A. BARNARD: The organization "may charge a fee of. . . ."

THE CHAIR: A fee not greater than, is it?

A. BARNARD: Yes.

V. SKAARUP: Our concern about advising you to have a blanket recommendation is simply that the cost of the administration for some of these organizations appears to be excessive, given that the financial statements are included in the public accounts of those that have little activity that would show up in schedules of salaries or suppliers. The question is: do we want to incur the extra costs for no additional information being provided?

D. SCHRECK: In view of the time, I think it's incumbent on us to be extremely pragmatic. At this stage, I don't think that we're going to be putting through another recommendation, when we've got mixed recommendations and some practical problems with organizations whereby even receiving the $5 would create a major administrative hassle. Perhaps it may be most appropriate, having raised this matter, that we re-examine it next year at this time and see whether the substantive list of those currently excluded has been whittled down at all. I think we can trust that officials will report through the appropriate channels and that something's going to happen in the months ahead.

THE CHAIR: So page 2, this long list of "consolidated and modified equity basis corporations that do not report under the FIA" includes things like the Liquor Control Board, right?

V. SKAARUP: Actually, the Liquor Control Board is not on there, because it's not directly a part of the entity. It's consolidated with the CRF, before it's then consolidated. We put it on that second-to-last page because,

based on our interpretation of the discussions, you're quite concerned about salary and supplier payments made by government bodies. The liquor distribution branch is connected most closely to the government, yet its salaries and supplier payments are not disclosed in the government's listing, nor separately. That's why we put it down on this list of organizations that you may want to consider. Of course, if you're deferring this until next year, we would be bringing these forward through the normal channels.

THE CHAIR: Seeing as there are only three of us. Ken, do you want to say anything?

K. JONES: Could we do the same thing with this one as we are proposing with the other resolution: bring it forward next week to vote?

D. SCHRECK: No, we're suggesting that on the other one, there is a consensus for resolution. On this one, it's a bit of a quagmire. Maybe we can have it reported back on and trust that the substantive issues will be dealt with by officials. We'll see less before us in the months ahead.

K. JONES: Do you see this as a quagmire? I thought it was very clear that we were going to send a clear message out that all agencies and groups will report. That way it clears up all of the problems. It makes the message from us very clear. I thought that the general trend when we were last meeting, prior to this being tabled, was for just a bit of further input.

THE CHAIR: My feeling about it is that there's clearly a difference between the auditor general's group and the comptroller general's group.

K. JONES: Yes, I accept that.

THE CHAIR: For an issue of this type, we need to have all the committee here to carefully think the whole thing through and go through a reasonably long discussion, so everybody is clear on exactly what everybody's position is. If we could do that next week, fine. I think next week we'll be dealing with finalizing our report and some other minor items. I would doubt that we could get through this, although perhaps we could. I'm not terribly worried about this being left over until the next session.

K. JONES: The only problem with leaving it over until the next session is that if there is a fall session, we probably wouldn't sit as a public accounts committee.

THE CHAIR: Oh, sure.

K. JONES: Maybe?

THE CHAIR: Yes.

K. JONES: Okay. But even if we did, would we not be too late for the establishment of this reporting process for this coming year?

D. SCHRECK: We are in any event, because the act provides that the requirements only kick in in the first full fiscal year after they go on the schedule.

THE CHAIR: This requires a change to legislation.

A. BARNARD: It would be by order-in-council, Mr. Chairman.

V. SKAARUP: No, the resolution was a change to the legislation.

A. BARNARD: Oh, you're changing the legislation?

V. SKAARUP: Yes.

THE CHAIR: No. We were talking about change to the legislation, to remove it from the order-in-council process, where it would be a matter of heads, tails; yes, they're in, no, they're not. That kind of change isn't going to come up in this session or the fall session, I would doubt, even if we were to deal with it tomorrow, and we need to be fairly united and unified before we go for legislative change. I think we really need to have everybody on the same side of the fence. My own feeling, Ken, is to let it go for now.

K. JONES: If you say it's not going to come up in the fall session, that means it's not going to come up until the spring session, which will be too late. If we bring the recommendation, it will be too late for the Legislature to bring legislation in before the fiscal year-end. Therefore it will be put off for another year beyond that. The implementation. . . .

THE CHAIR: No, I'm sorry. You and I aren't sitting on quite the same plane. This doesn't change anything that happens within these accounts; all we're talking about is requiring these organizations to have a package of information available to someone who comes to their door.

K. JONES: Exactly, and that's what I'm talking about. I want public access to this information, so that it will tie in directly with the freedom-of-information legislation when it comes into play next year as well. We should make sure that these are parallel; otherwise we're going to have people saying that these agencies don't have to report because they don't have legislation. It's not being prepared.

D. SCHRECK: No, there are two different reporting requirements, Ken. There are two different issues there.

K. JONES: This is financial.

THE CHAIR: We have reached the witching hour. May I have a motion to adjourn? Seeing as we haven't got a quorum, we can't have motions. Let's just adjourn.

The committee adjourned at 10:13 a.m.

WEDNESDAY, JUNE 24, 1992

The committee met at 8:57 a.m.

THE CHAIR: I'd like to call this meeting of the Select Standing Committee on Public Accounts to order.

D. SCHRECK: In terms of passing the report, Fred, what is the head count for a quorum? Craig, do you have the number?

C. JAMES: Six — a majority of members.

THE CHAIR: We have just made it.

D. SCHRECK: Okay.

THE CHAIR: On the basis that this was expected to be our last meeting, we have come to this meeting with the intent of dealing with our report. From a practical point of view, with your agreement, I have tentatively arranged with the auditor general that should the House be sitting next week, we would meet, and he would come and give us a presentation on value-for-money audits, about a particular one that has been done over the last year or so with Highways.

D. SCHRECK: Wednesday next week the House will definitely not be sitting, it being a statutory holiday and Canada Day. With the House sitting Monday, Tuesday, Thursday and Friday, Wednesday is still Canada Day.

THE CHAIR: Okay. I don't think we'll come in for the Public Accounts Committee.

It seems to me that if we could have this one show before the summer recess. . . .

D. SCHRECK: Or for the second week of July we could probably make it.

THE CHAIR: Yes. It would perhaps just be useful for it to be something that is left in our minds at the end of the session. So we will arrange it at some appropriate time if we are able to do so conveniently, but perhaps we'll carry on with this meeting on the basis that it is probably the last one of this session.

We need to deal first of all with recommendations 11 and 12 in the report, because they have not been passed by this committee. Then we'll go back to the beginning. I'd just like to get everything in the report official first.

On page 10, recommendation 11 says:

> "Your committee recommends that an amendment be made to the Financial Information Act respecting the definition of 'corporation' as follows: 'Corporation also means an organization or enterprise that is included in the reporting entity for purposes of the government's summary financial statements'."

Would anyone like to move this recommendation?

D. SCHRECK: So moved.

THE CHAIR: Moved by Mr. Schreck and seconded by Mr. K. Jones. Is there any further discussion?

B. JONES: I missed the last meeting, but I moved the motion at the meeting before last, and I think we were waiting in the interim for a response from. . . .

THE CHAIR: Which we've had this morning on an informal basis before we called the meeting to order. Basically, the conclusion that I think the committee came to was that it is a far simpler process to make a change to the legislation to bring everything in, even though there may be one or two or three corporations which are fairly insignificant. They would have a report that is only one page. Making the change ensures that everything is caught by the net, and I think it was the position of the committee and the discussion that that was what we would like to recommend.

B. JONES: You're sure this wasn't just a secret little meeting that you and David cooked up. [Laughter.]

THE CHAIR: Fred was in it, too.

B. JONES: If Fred was here, I'll go along with it.

F. RANDALL: No, I wasn't here; I missed the last meeting.

THE CHAIR: No, this morning's meeting.

A. BARNARD: It was discussed last week as well. It was discussed at the close of last week's meeting, and there was a handout.

K. JONES: I thought there was consensus even last week.

THE CHAIR: Yes, there was, but. . . . Well, I'm not sure there was, but we didn't have a quorum, anyway. So having got a quorum, it is being recommended that we include recommendation 11 in our report. It's been regularly moved and seconded.

Motion approved.

THE CHAIR: Recommendation No. 12. On this one there wasn't any dispute at all. The only reason we didn't finish it last week was the lack of a quorum. It reads:

> "Your committee recommends that the government increase its note disclosure of the fiscal agency loan program regarding loans repayable through future appropriations until a review of physical asset accounting can be completed and the public sector accounting and auditing committee of the Canadian Institute of Chartered Accountants has issued a statement on accounting for loans receivable."

D. SCHRECK: I move recommendation 12.

THE CHAIR: Moved by Mr. Schreck, seconded by Mr. K. Jones. Is there any discussion on the motion?

DEPUTY CHAIR: The wording was to be agreed upon by the comptroller general and the auditor general. Did that occur?

THE CHAIR: Yes.

A. BARNARD: We had agreement prior to the meeting that this would be a temporary way of resolving the issue between us. George, would you agree with that?

G. MORFITT: Yes.

THE CHAIR: The comptroller general's office, Joy, is certainly not agreeing that the present accounting practices should be changed. There just should be note disclosure, with which I understand he has no problem — just to ensure that everybody understands.

Motion approved.

THE CHAIR: Now, if we may, we'll turn back to the start of the report. Do you want us to go through these one at a time?

DEPUTY CHAIR: Mr. Chair, I've read the report, and the only recommendation that I had concerns with in the June 16 draft was recommendation 11, and the fact that we hadn't passed it yet. We've now done that, so. . . . My colleagues may want to go through line by line, word by word.

D. SCHRECK: No.

K. JONES: I move adoption of this report as a package.

Motion approved.

C. JAMES: There are a few pro forma motions that need to be moved. One is that the report, as amended and adopted by the committee, be presented to the House by the Chairperson at the earliest possible time.

K. JONES: So moved.

THE CHAIR: Is there any discussion on the motion that, having done all this work this summer, we at least send it in to the House?

Motion approved.

THE CHAIR: Next one.

C. JAMES: That's it.

THE CHAIR: Oh, that's it.

Circulated this morning is the report from B.C. Hydro. And if anyone doesn't have the little piece on why accountancy is not boring, I've got more copies.

Interjections.

THE CHAIR: You're obviously not in a position to put on the value-for-money audit presentation this morning. Or would people like the extra time?

B. JONES: Yes, please.

THE CHAIR: Well, in closing this, in case this is our last meeting, may I say that I have very much enjoyed this. I have enjoyed the privilege of working with you all, and it has been a privilege. I'm really happy that we have accomplished some things, and maybe that is a change from the last couple of years. As I say, it's been a privilege, and I want to thank you all very much for the support you've given me during the course of this couple of months.

D. SCHRECK: Thank you, Fred. I think all of our members feel the same way. We all have great pleasure in making this committee an active one again.

THE CHAIR: With that, I'll accept a motion to adjourn.

D. SCHRECK: So moved.

The committee adjourned at 9:07 a.m.

Queen's Printer for British Columbia ©
Victoria, 1992